



# PORT ST JOHNS

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Port St Johns Municipality  
Annual Financial Statements  
for the year ended 30 June, 2016

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## General Information

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### Legal form of entity

Municipality

### Nature of business and principal activities

The main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Rates and general services - All types of services rendered by the municipality, excluding the following: Housing Services.- supply of housing to the community and includes the rental of units owned by the municipality to public and staff, Waste Management Services - The collection and disposal of refuse.

### Members of Council

Mayor

Speaker

Chief Whip

Councillors

Councillor Langa P

Councillor Khukula T

Councillor Nokhanda B N

Councillor Bokwe N.F

Councillor Cube Z.H

Councillor Diko N.F

Councillor Fono K. M

Councillor Fono N.C

Councillor Kotana M.P.J

Councillor Lobi J.S

Councillor Mabovana M.S

Councillor Madini D. V

Councillor Madolo S

Councillor Maqina Z

Councillor Mbotshwa N

Councillor Mcekisa V .N

Councillor Mfiki N

Councillor Mhlabeni Z

Councillor Mncwati E.Z

Councillor Moni X

Councillor Mtiki Z

Councillor Mtuku N.B

Councillor Mzaza S

Councillor Ndakayi N

Councillor Ndamase L

Councillor Nduku C

Councillor Namagedeshe B

Councillor Nompaka T

Councillor Rolobile L

Councillor Sophotela M.N

Councillor Sotshongaye S.T

Councillor Tani N

Councillor Tayi H.S

Councillor Tshitshiliza N

Councillor Tshotho G

Councillor Veni M

Councillor Zweni R. M

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## General Information

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|                               |  |
|-------------------------------|--|
| Municipal demarcation code    | EC154                                    |
| Grading of local authority    | Grade 2                                  |
| Capacity of local authority   | Low                                      |
| Chief Financial Officer (CFO) | Mrs P Gwana                              |
| Accounting Officer            | Mr N Pakade                              |
| Business address              | 257 Main street<br>Port St Johns<br>5120 |
| Postal address                | P O Box 2<br>Port St Johns<br>5120       |
| Bankers                       | ABSA Limited                             |
| Auditors                      | Auditor-General South Africa             |
| Provincial treasury           | Eastern Cape Provincial Treasury         |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Index

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

| <b>Index</b>   | <b>Page</b> |
|--|-------------|
| Accounting Officers Responsibilities and Approval                  | 4           |
| Accounting Officer's Report  | 5           |
| Statement of Financial Position                                    | 6           |
| Statement of Financial Performance for the year ended 30 June 2016 | 7           |
| Statement of Changes in Net Assets                                 | 8           |
| Cash Flow Statement  | 9           |
| Statement of Comparison of Budget and Actual Amounts               | 10 - 11     |
| Appropriation Statement  | 12 - 14     |
| Accounting Policies  | 15 - 44     |
| Notes to the Annual Financial Statements                           | 45 - 82     |

### Abbreviations

|         |  |
|---------|--|
| DSRAC   | Department of Sports, Recreation, Arts and Culture   |
| EPWP    | Expanded Public Works Programme.                     |
| GRAP    | Generally Recognised Accounting Practice             |
| LG SETA | Local Government Skills Education Training Authority |
| MFMA    | Municipal Finance Management Act 56 of 2003          |
| MIG     | Municipal Infrastructure Grant                       |
| IPSAS   | International Public Sector Accounting Standards     |
| PSJDA   | Port St Johns Development Agency                     |
| SALGA   | South Africa Local Government Association            |
| MIG     | Municipal Infrastructure Grant (Previously CMIP)     |
| MSIG    | Municipal Systems Improvement Grant                  |

## **Port St Johns Municipality**

Annual Financial Statements for the year ended June 30, 2016

### **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act, 56 of 2003, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has considered the municipality's cashflow budget for the year June 30, 2017 during the budgeting process and, in the light of this and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on pages 5 to 64, which have been prepared on the going concern basis, were approved by the accounting officer on August 31, 2016.



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**Mr N Pakade**  
**Municipal Manager**

**Port St Johns**

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Officer's Report

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The accounting officer submits his report for the year ended June 30, 2016.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in the main business operation of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community :rates and refuse removal. and operates principally in South Africa and [state other countries].

### 2. Going concern

We draw attention to the fact that at 30 June, 2016, the municipality had accumulated deficits of 369,858,151 and that the municipality's total liabilities exceed its assets by 377,933,264.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note XX of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### 4.

The accounting officer of the municipality during the year and to the date of this report is as follows:

| Name        | Nationality   | Changes   |
|-------------|---------------|-----------|
| Mr N Pakade | South African | Appointed |

### 5. Interest in controlled entities

| Name of controlled entity        |     |     |
|----------------------------------|-----|-----|
| Port St Johns Development Agency | RSA | 100 |

### 6. Bankers

The municipality banks with ABSA limited

### 7. Auditors

Auditor-General South Africa will continue in office for the next financial period.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Statement of Financial Position as at 30 June, 2016

| Figures in Rand                            | Note(s) | 2016               | 2015               |
|--|---------|--------------------|--------------------|
| <b>Assets</b>                              |         |                    |                    |
| <b>Current Assets</b>                      |         |                    |                    |
| Cash and cash equivalent                   | 3       | 36,857,627         | 9,008,119          |
| Consumer debtors                           | 4       | 743,062            | 663,146            |
| Receivables from non-exchange transactions | 5       | 3,478,859          | 1,761,903          |
| VAT receivable                             | 6       | 17,535,662         | 31,762,180         |
| Other debtors from exchange transactions   | 7       | 776,025            | 531,385            |
| Inventories                                | 8       | 1,332,933          | 520,855            |
|  |         | <b>60,724,168</b>  | <b>44,247,588</b>  |
| <b>Non-Current Assets</b>                  |         |                    |                    |
| Investment property                        | 9       | 11,461,003         | 11,461,003         |
| Property, plant and equipment              | 10      | 355,304,955        | 352,314,324        |
|  |         | <b>366,765,958</b> | <b>363,775,327</b> |
| Non-Current Assets                         |         | 366,765,958        | 363,775,327        |
| Current Assets                             |         | 60,724,168         | 44,247,588         |
| <b>Total Assets</b>                        |         | <b>427,490,126</b> | <b>408,022,915</b> |
| <b>Liabilities</b>                         |         |                    |                    |
| <b>Current Liabilities</b>                 |         |                    |                    |
| Payables from exchange transactions        | 11      | 29,463,090         | 28,256,091         |
| Finance lease obligation                   | 12      | 10,532,048         | 11,526,747         |
| Unspent conditional grants and receipts    | 13      | 546,623            | -                  |
| Employee benefit obligation                | 15      | 230,325            | 509,000            |
| Consumer deposits                          |         | 61,000             | 61,000             |
| Bank overdraft                             | 3       | -                  | 45,125             |
|  |         | <b>40,833,086</b>  | <b>40,397,963</b>  |
| <b>Non-Current Liabilities</b>             |         |                    |                    |
| Finance lease obligation                   | 12      | 1,457              | 100,244            |
| Operating lease liability                  | 14      | 1,729,553          | 1,597,514          |
| Employee benefit obligation                | 15      | 1,898,031          | 1,472,000          |
| Provisions                                 | 16      | 5,094,735          | 4,801,824          |
|  |         | <b>8,723,776</b>   | <b>7,971,582</b>   |
| Non-Current Liabilities                    |         | 8,723,776          | 7,971,582          |
| Current Liabilities                        |         | 40,833,086         | 40,397,963         |
| <b>Total Liabilities</b>                   |         | <b>49,556,862</b>  | <b>48,369,545</b>  |
| Assets                                     |         | 427,490,126        | 408,022,915        |
| Liabilities                                |         | (49,556,862)       | (48,369,545)       |
| <b>Net Assets</b>                          |         | <b>377,933,264</b> | <b>359,653,370</b> |
| <b>Reserves</b>                            |         |                    |                    |
| Capital reserve                            | 17      | 8,075,113          | 3,094,217          |
| Accumulated surplus                        | 18      | 369,858,151        | 356,559,153        |
| <b>Total Net Assets</b>                    |         | <b>377,933,264</b> | <b>359,653,370</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Statement of Financial Performance for the year ended 30 June 2016

| Figures in Rand                                     | Note(s) | 2016                 | 2015                 |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Interest received -Investments                      | 20      | 1,650,441            | 808,187              |
| Service charges                                     | 21      | 755,693              | 726,277              |
| Rental income                                       | 22      | 34,025               | 58,056               |
| Interest received - trading                         |         | 2,946,098            | 2,550,539            |
| Other income  | 23      | 559,520              | 292,457              |
| <b>Total revenue from exchange transactions</b>     |         | <b>5,945,777</b>     | <b>4,435,516</b>     |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 24      | 6,741,055            | 3,962,250            |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants and subsidies                     | 25      | 149,272,297          | 143,535,495          |
| Public contributions and donations                  |         | 2,500                | 724,495              |
| Fines, penalties and forfeits                       |         | 290,100              | 285,650              |
| Licences and permits                                |         | 45,444               | 24,267               |
| <b>Total revenue from non-exchange transactions</b> |         | <b>156,351,396</b>   | <b>148,532,157</b>   |
|   |         | 5,945,777            | 4,435,516            |
|   |         | 156,351,396          | 148,532,157          |
| <b>Total revenue</b>                                | 19      | <b>162,297,173</b>   | <b>152,967,673</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 26      | (48,716,386)         | (44,498,615)         |
| Remuneration of councillors                         | 27      | (11,393,947)         | (10,289,738)         |
| Debt impairment                                     | 28      | (1,920,263)          | (3,848,026)          |
| Depreciation  | 29      | (26,328,661)         | (30,811,366)         |
| Finance costs                                       | 30      | (7,015,200)          | (10,476,402)         |
| Repairs and maintenance                             |         | (2,808,955)          | (2,533,907)          |
| Contracted services                                 | 31      | (14,029,303)         | (4,425,519)          |
| Grants and subsidies paid                           | 32      | (6,043,566)          | (5,033,220)          |
| Loss on disposal of assets                          |         | (18,177)             | (263,526)            |
| Operating lease rentals                             |         | (408,686)            | (306,585)            |
| General expenses                                    | 33      | (30,387,119)         | (36,646,954)         |
| <b>Total expenditure</b>                            |         | <b>(149,070,263)</b> | <b>(149,133,858)</b> |
|   |         | -                    | -                    |
| Total revenue                                       |         | 162,297,173          | 152,967,673          |
| Total expenditure                                   |         | (149,070,263)        | (149,133,858)        |
| Operating surplus/deficit                           |         | -                    | -                    |
| Surplus before taxation                             |         | 13,226,910           | 3,833,815            |
| Taxation  |         | -                    | -                    |
| <b>Surplus for the year</b>                         |         | <b>13,226,910</b>    | <b>3,833,815</b>     |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Statement of Changes in Net Assets

| Figures in Rand                                       | Capital Reserve  | Accumulated surplus | Total net assets   |
|---|------------------|---------------------|--------------------|
| <b>Balance at July 1, 2014 as previously reported</b> | -                | <b>342,163,730</b>  | <b>342,163,730</b> |
| Changes in net assets                                 |                  |                     |                    |
| Prior year adjustments - Note 41                      | -                | 10,561,608          | 10,561,608         |
| Recognition of assets                                 | 3,094,217        | -                   | 3,094,217          |
| Net income (losses) recognised directly in net assets | 3,094,217        | 10,561,608          | 13,655,825         |
| Surplus/(deficit) for the year                        | -                | 3,833,815           | 3,833,815          |
| Total changes   | 3,094,217        | 14,395,423          | 17,489,640         |
| Total changes   | 3,094,217        | 14,395,423          | 17,489,640         |
| <b>Balance at 1 July, 2015</b>                        | <b>3,094,217</b> | <b>356,559,151</b>  | <b>359,653,368</b> |
| Changes in net assets                                 |                  |                     |                    |
| Surplus/(deficit) for the year                        | -                | 13,226,910          | 13,226,910         |
| Prior year adjustment input VAT                       | -                | 72,090              | 72,090             |
| Recognition of assets                                 | 4,980,896        | -                   | 4,980,896          |
| Total changes   | 4,980,896        | 13,299,000          | 18,279,896         |
| <b>Balance at 30 June, 2016</b>                       | <b>8,075,113</b> | <b>369,858,151</b>  | <b>377,933,264</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Cash Flow Statement

| Figures in Rand   | Note(s) | 2016                 | 2015                |
|---|---------|----------------------|---------------------|
| <b>Cash flows from operating activities</b>                 |         |                      |                     |
| <b>Receipts</b>   |         |                      |                     |
| Licences and permits  |         | 51,803               | 28,879              |
| Service charges   |         | 5,112,527            | 317,048             |
| Grants and subsidies  |         | 149,933,340          | 130,318,340         |
| Interest income   |         | 1,286,316            | 808,187             |
| VAT refunds   |         | 20,350,148           | 667,233             |
| Interest received on outstanding debtors                    |         | 497,290              | 249,914             |
| Other receipts  |         | 2,874,490            | 282,863             |
| Rental of facilities and equipment                          |         | 38,940               | 63,610              |
| Traffic Fines   |         | 51,630               | 41,950              |
| Rates   |         | 260,231              | 2,134,666           |
|   |         | <u>180,456,715</u>   | <u>134,912,690</u>  |
| <b>Payments</b>   |         |                      |                     |
| Employee costs and remuneration of councillors              |         | (63,003,961)         | (54,203,273)        |
| Suppliers   |         | (34,886,343)         | (27,215,405)        |
| Contracted services   |         | (15,186,354)         | (7,095,943)         |
| Rental of equipment   |         | (426,260)            | (319,961)           |
| Finance cost  |         | (3)                  | -                   |
| Repairs and maintenance                                     |         | (3,286,506)          | (1,587,234)         |
| Grants and subsidies paid                                   |         | (6,889,665)          | (5,033,222)         |
|   |         | <u>(123,679,092)</u> | <u>(95,455,038)</u> |
| Total receipts  |         | 180,456,715          | 134,912,690         |
| Total payments  |         | (123,679,092)        | (95,455,038)        |
| <b>Net cash flows from operating activities</b>             | 35      | <u>56,777,623</u>    | <u>39,457,652</u>   |
| <b>Cash flows from investing activities</b>                 |         |                      |                     |
| Purchase of property, plant and equipment                   | 10      | (20,301,017)         | (25,630,708)        |
| Proceeds from sale of property, plant and equipment         | 10      | 466,499              | -                   |
| <b>Net cash flows from investing activities</b>             |         | <u>(19,834,519)</u>  | <u>(25,630,708)</u> |
| <b>Cash flows from financing activities</b>                 |         |                      |                     |
| Finance lease payments                                      |         | <u>(9,048,471)</u>   | <u>(19,506,261)</u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | 27,894,633           | (5,679,317)         |
| Cash and cash equivalents at the beginning of the year      |         | 8,962,994            | 14,642,311          |
| <b>Cash and cash equivalents at the end of the year</b>     | 3       | <u>36,857,627</u>    | <u>8,962,994</u>    |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

|   | Approved budget      | Adjustments          | Final Budget         | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|----------------------|----------------------|----------------------|------------------------------------|--|-----------|
| <b>Figures in Rand</b>                              |                      |                      |                      |                                    |  |           |
| <b>Statement of Financial Performance</b>           |                      |                      |                      |                                    |  |           |
| <b>Revenue</b>                                      |                      |                      |                      |                                    |  |           |
| <b>Revenue from exchange transactions</b>           |                      |                      |                      |                                    |  |           |
| Service charges                                     | 1,816,672            | (1,000,000)          | 816,672              | 755,693                            | (60,979)                                   | a         |
| Rental income                                       | -                    | 40,000               | 40,000               | 34,025                             | (5,975)                                    |           |
| Interest received - trading                         | 2,000,000            | 1,000,000            | 3,000,000            | 2,946,098                          | (53,902)                                   | b         |
| Other income - (rollup)                             | 412,405              | 205,595              | 618,000              | 559,520                            | (58,480)                                   |           |
| Interest received - investment                      | 300,000              | 1,200,000            | 1,500,000            | 1,650,441                          | 150,441                                    |           |
| <b>Total revenue from exchange transactions</b>     | <b>4,529,077</b>     | <b>1,445,595</b>     | <b>5,974,672</b>     | <b>5,945,777</b>                   | <b>(28,895)</b>                            |           |
| <b>Revenue from non-exchange transactions</b>       |                      |                      |                      |                                    |  |           |
| <b>Taxation revenue</b>                             |                      |                      |                      |                                    |  |           |
| Property rates                                      | 10,051,674           | (2,000,003)          | 8,051,671            | 6,741,055                          | (1,310,616)                                | c         |
| <b>Transfer revenue</b>                             |                      |                      |                      |                                    |  |           |
| Government grants and subsidies                     | 157,795,000          | (976,080)            | 156,818,920          | 149,272,297                        | (7,546,623)                                | d         |
| Public contributions and donations                  | -                    | -                    | -                    | 2,500                              | 2,500                                      |           |
| Fines, penalties and forfeits                       | 45,175               | 304,825              | 350,000              | 290,100                            | (59,900)                                   |           |
| Licences and Permits                                | 3,044,087            | (2,994,087)          | 50,000               | 45,444                             | (4,556)                                    |           |
| <b>Total revenue from non-exchange transactions</b> | <b>170,935,936</b>   | <b>(5,665,345)</b>   | <b>165,270,591</b>   | <b>156,351,396</b>                 | <b>(8,919,195)</b>                         |           |
| 'Total revenue from exchange transactions'          | 4,529,077            | 1,445,595            | 5,974,672            | 5,945,777                          | (28,895)                                   |           |
| 'Total revenue from non-exchange transactions'      | 170,935,936          | (5,665,345)          | 165,270,591          | 156,351,396                        | (8,919,195)                                |           |
| <b>Total revenue</b>                                | <b>175,465,013</b>   | <b>(4,219,750)</b>   | <b>171,245,263</b>   | <b>162,297,173</b>                 | <b>(8,948,090)</b>                         |           |
| <b>Expenditure</b>                                  |                      |                      |                      |                                    |  |           |
| Employee related costs                              | (48,880,394)         | (13,982,779)         | (62,863,173)         | (48,716,386)                       | 14,146,787                                 | e         |
| Remuneration of councillors                         | (12,476,203)         | -                    | (12,476,203)         | (11,393,947)                       | 1,082,256                                  |           |
| Depreciation and amortisation                       | (9,457,988)          | (44,347,012)         | (53,805,000)         | (26,328,661)                       | 27,476,339                                 | f         |
| Finance costs                                       | (50,000)             | (7,240,000)          | (7,290,000)          | (7,015,200)                        | 274,800                                    |           |
| Lease rentals on operating lease                    | (179,449)            | (1,423,370)          | (1,602,819)          | (408,686)                          | 1,194,133                                  |           |
| Debt impairment                                     | (5,240,000)          | 1,540,000            | (3,700,000)          | (1,920,263)                        | 1,779,737                                  |           |
| Repairs and maintenance                             | (6,008,202)          | (779,103)            | (6,787,305)          | (2,808,955)                        | 3,978,350                                  |           |
| Contracted services                                 | (1,059,000)          | (25,471,000)         | (26,530,000)         | (14,029,303)                       | 12,500,697                                 |           |
| Grants and subsidies paid                           | (3,842,000)          | (6,250,000)          | (10,092,000)         | (6,043,566)                        | 4,048,434                                  |           |
| Reserves  | -                    | (70,000)             | (70,000)             | -                                  | 70,000                                     |           |
| General expenses                                    | (43,680,994)         | (9,546,557)          | (53,227,551)         | (30,387,119)                       | 22,840,432                                 |           |
| <b>Total expenditure</b>                            | <b>(130,874,230)</b> | <b>(107,569,821)</b> | <b>(238,444,051)</b> | <b>(149,052,086)</b>               | <b>89,391,965</b>                          |           |
|   | 175,465,013          | (4,219,750)          | 171,245,263          | 162,297,173                        | (8,948,090)                                |           |
|   | (130,874,230)        | (107,569,821)        | (238,444,051)        | (149,052,086)                      | 89,391,965                                 |           |
| <b>Operating surplus</b>                            | <b>44,590,783</b>    | <b>(111,789,571)</b> | <b>(67,198,788)</b>  | <b>13,245,087</b>                  | <b>80,443,875</b>                          |           |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

|  | Approved<br>budget | Adjustments          | Final Budget        | Actual<br>amounts on<br>comparable<br>basis | Difference<br>between final<br>budget and<br>actual | Reference |
|--|--------------------|----------------------|---------------------|---|---|-----------|
| <b>Figures in Rand</b>   |                    |                      |                     |   |   |           |
| Loss on disposal of assets and liabilities   | -                  | (20,000)             | (20,000)            | (18,177)                                    | 1,823   |           |
|  | 44,590,783         | (111,789,571)        | (67,198,788)        | 13,245,087                                  | 80,443,875  |           |
|  | -                  | (20,000)             | (20,000)            | (18,177)                                    | 1,823   |           |
| <b>Surplus before taxation</b>   | <b>44,590,783</b>  | <b>(111,809,571)</b> | <b>(67,218,788)</b> | <b>13,226,910</b>                           | <b>80,445,698</b>                                   |           |
| Deficit before taxation  | 44,590,783         | (111,809,571)        | (67,218,788)        | 13,226,910                                  | 80,445,698  |           |
| Taxation   | -                  | -                    | -                   | -   | -   |           |
| <b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b> | <b>44,590,783</b>  | <b>(111,809,571)</b> | <b>(67,218,788)</b> | <b>13,226,910</b>                           | <b>80,445,698</b>                                   |           |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

Figures in Rand

| Original<br>budget | Budget<br>adjustments<br>(i.t.o. s28 and<br>s31 of the<br>MFMA) | Final<br>adjustments<br>and budget | Shifting of<br>funds (i.t.o.<br>s31 of the<br>MFMA) | Virement<br>(i.t.o. council<br>approved<br>policy) | Final budget | Actual<br>outcome | Unauthorised<br>expenditure | Variance | Actual<br>outcome<br>as % of<br>final<br>budget | Actual<br>outcome<br>as % of<br>original<br>budget |
|--------------------|---|------------------------------------|---|--|--------------|-------------------|-----------------------------|----------|---|--|
|--------------------|---|------------------------------------|---|--|--------------|-------------------|-----------------------------|----------|---|--|

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Appropriation Statement

Figures in Rand

|  | Original budget      | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget         | Actual outcome       | Unauthorised expenditure | Variance           | Actual outcome as % of final budget | Actual outcome as % of original budget |
|--|----------------------|---|--------------------------|--|---|----------------------|----------------------|--------------------------|--------------------|-------------------------------------|--|
| <b>Financial Performance</b>   |                      |   |                          |  |   |                      |                      |                          |                    |                                     |  |
| Property rates   | 10,051,674           | (2,000,003)   | 8,051,671                | -  | -   | 8,051,671            | 6,741,055            |                          | (1,310,616)        | 84 %                                | 67 %                                   |
| Service charges  | 1,816,672            | (1,000,000)   | 816,672                  | -  | -   | 816,672              | 755,693              |                          | (60,979)           | 93 %                                | 42 %                                   |
| Investment revenue   | 300,000              | 1,200,000   | 1,500,000                | -  | -   | 1,500,000            | 1,650,441            |                          | 150,441            | 110 %                               | 550 %                                  |
| Transfers recognised - operational                                   | 157,795,000          | (976,080)   | 156,818,920              | -  | -   | 156,818,920          | 149,272,297          |                          | (7,546,623)        | 95 %                                | 95 %                                   |
| Other own revenue  | 5,501,667            | (1,443,667)   | 4,058,000                | -  | -   | 4,058,000            | 3,877,687            |                          | (180,313)          | 96 %                                | 70 %                                   |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>175,465,013</b>   | <b>(4,219,750)</b>                                  | <b>171,245,263</b>       | -  | -   | <b>171,245,263</b>   | <b>162,297,173</b>   |                          | <b>(8,948,090)</b> | <b>95 %</b>                         | <b>92 %</b>                            |
| Employee costs   | (48,880,394)         | (13,982,779)  | (62,863,173)             | -  | -   | (62,863,173)         | (48,716,386)         |                          | 14,146,787         | 77 %                                | 100 %                                  |
| Remuneration of councillors  | (12,476,203)         | -   | (12,476,203)             | -  | -   | (12,476,203)         | (11,393,947)         |                          | 1,082,256          | 91 %                                | 91 %                                   |
| Debt impairment  | (5,240,000)          | 1,540,000   | (3,700,000)              |  |   | (3,700,000)          | (1,920,263)          |                          | 1,779,737          | 52 %                                | 37 %                                   |
| Depreciation and asset impairment                                    | (9,457,988)          | (44,347,012)  | (53,805,000)             |  |   | (53,805,000)         | (26,328,661)         |                          | 27,476,339         | 49 %                                | 278 %                                  |
| Finance charges  | 50,000               | (7,240,000)   | (7,190,000)              | -  | -   | (7,190,000)          | (7,015,200)          |                          | 174,800            | 98 %                                | (14,030)%                              |
| Other expenditure  | (54,869,645)         | (43,540,030)  | (98,409,675)             | -  | -   | (98,409,675)         | (53,695,806)         |                          | 44,713,869         | 55 %                                | 98 %                                   |
| <b>Total expenditure</b>   | <b>(130,874,230)</b> | <b>(107,569,821)</b>                                | <b>(238,444,051)</b>     | -  | -   | <b>(238,444,051)</b> | <b>(149,070,263)</b> |                          | <b>89,373,788</b>  | <b>63 %</b>                         | <b>114 %</b>                           |
| <b>Total revenue (excluding capital transfers and contributions)</b> | <b>175,465,013</b>   | <b>(4,219,750)</b>                                  | <b>171,245,263</b>       | -  | -   | <b>171,245,263</b>   | <b>162,297,173</b>   |                          | <b>(8,948,090)</b> | <b>95 %</b>                         | <b>92 %</b>                            |
| <b>Total expenditure</b>   | <b>(130,874,230)</b> | <b>(107,569,821)</b>                                | <b>(238,444,051)</b>     | -  | -   | <b>(238,444,051)</b> | <b>(149,070,263)</b> |                          | <b>89,373,788</b>  | <b>63 %</b>                         | <b>114 %</b>                           |
| <b>Surplus/(Deficit)</b>   | <b>44,590,783</b>    | <b>(111,789,571)</b>                                | <b>(67,198,788)</b>      | -  | -   | <b>(67,198,788)</b>  | <b>13,226,910</b>    |                          | <b>80,425,698</b>  | <b>(20)%</b>                        | <b>30 %</b>                            |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Appropriation Statement

Figures in Rand

|   | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance    | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|-----------------|---|-------------------|--|---|--------------|----------------|--------------------------|-------------|-------------------------------------|--|
| Transfers recognised - capital                              | 30,565,000      | -   | 30,565,000        | -  | -   | 30,565,000   | 24,278,000     |                          | (6,287,000) | 79 %                                | 79 %                                   |
| Surplus/(Deficit) Capital transfers and contributions       | 44,590,783      | (111,789,571)                                       | (67,198,788)      | -  | -   | (67,198,788) | 13,226,910     | -                        | 80,425,698  | (20)%                               | 30 %                                   |
|   | 30,565,000      | -   | 30,565,000        | -  | -   | 30,565,000   | 24,278,000     | -                        | (6,287,000) | 79 %                                | 79 %                                   |
| Surplus (Deficit) after capital transfers and contributions | 75,155,783      | (111,789,571)                                       | (36,633,788)      | -  | -   | (36,633,788) | 37,504,910     |                          | 74,138,698  | (102)%                              | 50 %                                   |
| Surplus (Deficit) after capital transfers and contributions | 75,155,783      | (111,789,571)                                       | (36,633,788)      | -  | -   | (36,633,788) | 37,504,910     | -                        | 74,138,698  | (102)%                              | 50 %                                   |
| Surplus/(Deficit) for the year                              | 75,155,783      | (111,789,571)                                       | (36,633,788)      | -  | -   | (36,633,788) | 37,504,910     |                          | 74,138,698  | (102)%                              | 50 %                                   |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 56 of 2003.

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note First-time adoption of Standards of GRAP.

#### 1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

#### 1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

##### Receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

##### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.3 Significant judgements and sources of estimation uncertainty (continued)

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for impairment

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### 1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.4 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

| Item                 | Useful life |
|----------------------|-------------|
| Property - land      | indefinite  |
| Property - buildings | 20-30 years |

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest in another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Other receivables1  
Other receivables2  
Other financial asset1

#### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at fair value

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

#### Class

Loan3  
Other receivables1  
Other receivables2

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

The entity has the following types of residual interests (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

# **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

#### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

##### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.7 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### 1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.9 Inventories (continued)

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

# **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.10 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets (continued)

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.11 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### 1.12 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of an municipality after deducting all of its liabilities.

### 1.13 Statutory receivables

Goods or services received or acquired in a share-based payment transaction are recognised when the goods or as the services are received. A corresponding increase in equity is recognised if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they are recognised as expenses.

For equity-settled share-based payment transactions, the goods or services received are measured, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably.

If the fair value of the goods or services received cannot be estimated reliably, their value and the corresponding increase in equity, indirectly, are measured by reference to the fair value of the equity instruments granted.

For cash-settled share-based payment transactions, the goods or services acquired and the liability incurred are measured at the fair value of the liability. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in surplus or deficit for the period.

If the share based payments granted do not vest until the counterparty completes a specified period of service, municipality accounts for those services as they are rendered by the counterparty during the vesting period, (or on a straight line basis over the vesting period).

If the share based payments vest immediately the services received are recognised in full.

For share-based payment transactions in which the terms of the arrangement provide either the municipality or the counterparty with the choice of whether the municipality settles the transaction in cash (or other assets) or by issuing equity instruments, the components of that transaction are recorded, as a cash-settled share-based payment transaction if, and to the extent that, a liability to settle in cash or other assets has been incurred, or as an equity-settled share-based payment transaction if, and to the extent that, no such liability has been incurred.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

### Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
  - those changes were enacted before the reporting date; or
  - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### Other long-term employee benefits

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.14 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### 1.15 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.15 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

### 1.16 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

### 1.17 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.17 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.18 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.18 Revenue from non-exchange transactions (continued)

#### Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### 1.19 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

### 1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.23 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.24 Accumulated surplus

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

### 1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 7/1/2015 to 6/30/2016.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.



## **Port St Johns Municipality**

Annual Financial Statements for the year ended 30 June, 2016

### **Accounting Policies**

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#### **1.27 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

#### **1.28 Value-added Tax (VAT)**

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

2016

2015

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 1 July, 2016 or later periods:

#### GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 - Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand                       | 2016              | 2015             |
|---------------------------------------|-------------------|------------------|
| <b>3. Cash and cash equivalent</b>    |                   |                  |
| Cash and cash equivalents consist of: |                   |                  |
| Cash on hand                          | -                 | 167              |
| Bank balances                         | 2,534,152         | -                |
| Short-term deposits                   | 34,323,475        | 9,007,952        |
| Bank overdraft                        | -                 | (45,125)         |
|                                       | <b>36,857,627</b> | <b>8,962,994</b> |
| Current assets                        | 36,857,627        | 9,008,119        |
| Current liabilities                   | -                 | (45,125)         |
|                                       | <b>36,857,627</b> | <b>8,962,994</b> |

Fleet card amount is attached to the main account with the limit of R40 000

No item of cash and cash equivalents has been pledged as security.

### The municipality had the following bank accounts

| Account number / description                | Bank statement balances |                  |                   | Cash book balances |                  |                   |
|---|-------------------------|------------------|-------------------|--------------------|------------------|-------------------|
|   | June 30, 2016           | June 30, 2015    | June 30, 2014     | June 30, 2016      | June 30, 2015    | 30 June, 2014     |
| Absa Bank- Current Account Operational 9269 | 2,530,159               | (45,125)         | 3,401,550         | 2,530,144          | (45,125)         | 3,401,550         |
| ABSA Bank- Salaries Call Account 9269487272 | 5,117,015               | 3,883,857        | 1,238,979         | 5,117,015          | 3,883,857        | 1,238,979         |
| ABSA MSP Fund Account 9084929972            | 2,457                   | 2,391            | 2,339             | (9,983)            | 2,391            | 2,339             |
| ABSA Repairs Account 908472134              | 24,298,362              | 2,583,734        | 2,320,921         | 24,298,362         | 2,583,734        | 2,320,921         |
| ABSA Call Account FMG 9269486056            | 3,245,348               | 1,001,162        | 3,242,648         | 3,245,357          | 1,001,162        | 3,242,684         |
| ABSA MIG Call Account 9269486187            | 8,745                   | 2,345            | 928,445           | 8,745              | 2,345            | 928,445           |
| ABSA LED Account 9269487159                 | 13,288                  | 121,551          | 2,290,757         | 13,288             | 121,551          | 2,290,757         |
| ABSA Traffic Call Account 9279313891        | 5,644                   | 5,487            | 5,273             | 5,664              | 5,487            | 5,273             |
| ABSA Plant Call Account                     | 1,645,027               | 1,407,425        | 1,211,398         | 1,645,027          | 1,407,425        | 1,211,398         |
| Petty Cash                                  | -                       | 167              | (36)              | -                  | 167              | (36)              |
| ABSA EPWP 9319147506                        | 1,002                   | -                | -                 | 1,002              | -                | -                 |
| ABSA Bank LG SETA 9319149964                | 1,002                   | -                | -                 | 1,002              | -                | -                 |
| ABSA Bank INEP 9318036122                   | 1,002                   | -                | -                 | 1,002              | -                | -                 |
| ABSA Bank 9319147695                        | 1,002                   | -                | -                 | 1,002              | -                | -                 |
| <b>Total</b>                                | <b>36,870,053</b>       | <b>8,962,994</b> | <b>14,642,274</b> | <b>36,857,627</b>  | <b>8,962,994</b> | <b>14,642,310</b> |

### 4. Receivables from exchange transactions

|                       |                  |                  |
|-----------------------|------------------|------------------|
| <b>Gross balances</b> |                  |                  |
| Refuse                | 5,123,051        | 4,156,159        |
| Property lease rental | 161,616          | 161,616          |
|                       | <b>5,284,667</b> | <b>4,317,775</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand  | 2016               | 2015               |
|--|--------------------|--------------------|
| <b>4. Receivables from exchange transactions (continued)</b> |                    |                    |
| <b>Less: Allowance for impairment</b>                        |                    |                    |
| Refuse   | (4,396,151)        | (3,509,175)        |
| Property lease rental  | (145,454)          | (145,454)          |
|  | <b>(4,541,605)</b> | <b>(3,654,629)</b> |
| <b>Net balance</b>   |                    |                    |
| Refuse   | 726,900            | 646,984            |
| Property lease rental  | 16,162             | 16,162             |
|  | <b>743,062</b>     | <b>663,146</b>     |
| <b>Refuse</b>  |                    |                    |
| Current (0 -30 days)   | 317,300            | 292,588            |
| 31 - 60 days   | 102,208            | 92,324             |
| 61 - 90 days   | 101,344            | 90,902             |
| 91 - 120 days  | 4,602,199          | 3,680,346          |
| Less: Allowance  | (4,396,151)        | (3,509,176)        |
|  | <b>726,900</b>     | <b>646,984</b>     |
| <b>Housing rental</b>  |                    |                    |
| Current (0 -30 days)   | 161,616            | 161,616            |
| Less Impairment  | (145,454)          | (145,454)          |
|  | <b>16,162</b>      | <b>16,162</b>      |
| <b>Summary of debtors by customer classification</b>         |                    |                    |
| <b>Consumers</b>   |                    |                    |
| Current (0 -30 days)   | 80,874             | 82,525             |
| 31 - 60 days   | 27,863             | 26,968             |
| 61 - 90 days   | 27,463             | 26,653             |
| 91 - 120 days  | 1,669,862          | 1,462,501          |
|  | <b>1,806,062</b>   | <b>1,598,647</b>   |
| Less: Allowance for impairment                               | (1,588,139)        | (1,331,042)        |
|  | <b>217,923</b>     | <b>267,605</b>     |
| <b>Consumers past due and impaired</b>                       |                    |                    |
| 31- 60 days  | 27,863             | 26,968             |
| 61- 90 days  | 27,473             | 26,653             |
| > 90 days  | 1,831,478          | 1,462,501          |
|  | <b>1,886,814</b>   | <b>1,516,122</b>   |
| <b>Industrial/ commercial</b>                                |                    |                    |
| Current (0 -30 days)   | 132,928            | 117,959            |
| 31 - 60 days   | 40,512             | 35,612             |
| 61 - 90 days   | 40,230             | 35,225             |
| 91 - 120 days  | 1,176,812          | 833,534            |
|  | <b>1,390,482</b>   | <b>1,022,330</b>   |
| Less: Allowance for impairment                               | (1,094,439)        | (803,074)          |
|  | <b>296,043</b>     | <b>219,256</b>     |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand   | 2016               | 2015               |
|---|--------------------|--------------------|
| <b>4. Receivables from exchange transactions (continued)</b>      |                    |                    |
| <b>Industrial past due and impaired</b>                           |                    |                    |
| 31 -60 days   | 102,208            | 35,612             |
| 61- 90 days   | 40,230             | 35,612             |
| > 90 days   | 1,176,812          | 833,534            |
|   | <b>1,319,250</b>   | <b>904,758</b>     |
| <b>National and provincial government</b>                         |                    |                    |
| Current (0 -30 days)  | 103,498            | 92,103             |
| 31 - 60 days  | 33,833             | 29,743             |
| 61 - 90 days  | 33,641             | 29,025             |
| 91 - 120 days   | 1,755,525          | 1,384,310          |
|   | <b>1,926,497</b>   | <b>1,535,181</b>   |
| Less: Allowance for impairment                                    | <b>(1,094,439)</b> | <b>(1,375,059)</b> |
|   | <b>832,058</b>     | <b>160,122</b>     |
| <b>National and Provincial Governemnts- Past Due and Impaired</b> |                    |                    |
| 31- 60 days   | 33,833             | 29,743             |
| 61- 90 days   | 33,641             | 29,025             |
| > 90 days   | 1,755,525          | 1,384,310          |
|   | <b>1,822,999</b>   | <b>1,443,078</b>   |
| <b>Total</b>  |                    |                    |
| Current (0 -30 days)  | 317,300            | 292,588            |
| 31 - 60 days  | 102,208            | 92,324             |
| 61 - 90 days  | 101,344            | 90,902             |
| >120 days   | 4,763,815          | 3,841,960          |
|   | <b>5,284,667</b>   | <b>4,317,774</b>   |
| Less: Allowance for impairment                                    | <b>(4,541,605)</b> | <b>(3,654,628)</b> |
|   | <b>743,062</b>     | <b>663,146</b>     |
| <b>Reconciliation of allowance for impairment</b>                 |                    |                    |
| Balance at beginning of the year                                  | (3,654,629)        | (3,101,964)        |
| Reversal of allowance   | (886,976)          | (552,665)          |
|   | <b>(4,541,605)</b> | <b>(3,654,629)</b> |

### Consumer debtors pledged as security

No receivables from exchange transactions have been pledged as security.

### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from refuse are billed monthly. Interest is charged on overdue consumers receivables at a rate of 15% per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand  | 2016                | 2015                |
|--|---------------------|---------------------|
| <b>5. Receivables from non exchange transactions</b>     |                     |                     |
| <b>Gross balances</b>                                    |                     |                     |
| Rates  | 20,548,930          | 18,037,157          |
| Traffic fines  | 747,583             | 509,113             |
|  | <b>21,296,513</b>   | <b>18,546,270</b>   |
| <b>Less: Allowance for impairment</b>                    |                     |                     |
| Rates  | (17,203,121)        | (16,351,749)        |
| Traffic fines  | (614,533)           | (432,618)           |
|  | <b>(17,817,654)</b> | <b>(16,784,367)</b> |
| <b>Net balance</b>                                       |                     |                     |
| Rates  | 3,345,809           | 1,685,408           |
| Traffic fines  | 133,050             | 76,495              |
|  | <b>3,478,859</b>    | <b>1,761,903</b>    |
| <b>Rates</b>   |                     |                     |
| Current (0 -30 days)                                     | 312,672             | 994,096             |
| 31 - 60 days   | 258,920             | 242,033             |
| 61 - 90 days   | 258,898             | 241,032             |
| 91 - 120 days  | 19,718,441          | 16,559,996          |
| Less Impairment allowance                                | (17,203,122)        | (16,351,749)        |
|  | <b>3,345,809</b>    | <b>1,685,408</b>    |
| <b>Traffic fines</b>                                     |                     |                     |
| Current (0 -30 days)                                     | 11,650              | 44,363              |
| 31 - 60 days   | 21,300              | 22,480              |
| 61 - 90 days   | 44,800              | 8,873               |
| 91 - 120 days  | 669,833             | 433,397             |
| Less Impairment  | (614,533)           | (432,618)           |
|  | <b>133,050</b>      | <b>76,495</b>       |
| <b>Summary of receivables by customer classification</b> |                     |                     |
| <b>Consumers</b>   |                     |                     |
| Current (0 -30 days)                                     | 171,454             | 540,892             |
| 31 - 60 days   | 137,244             | 123,644             |
| 61 - 90 days   | 137,170             | 122,775             |
| 91 - 120 days  | 10,326,478          | 8,685,904           |
|  | <b>10,772,346</b>   | <b>9,473,215</b>    |
| Less: Allowance for impairment                           | (9,755,120)         | (7,784,554)         |
|  | <b>1,017,226</b>    | <b>1,688,661</b>    |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand   | 2016              | 2015             |
|---|-------------------|------------------|
| <b>5. Receivables from non exchange transactions (continued)</b>  |                   |                  |
| <b>Consumers past due and impaired</b>                            |                   |                  |
| 31- 60 days   | 137,244           | 123,644          |
| 61-90 days  | 137,170           | 122,775          |
| >90 days  | 10,326,478        | 8,685,904        |
|   | <b>10,600,892</b> | <b>8,932,323</b> |
| <b>Industrial/ commercial</b>                                     |                   |                  |
| Current (0 -30 days)  | 12,337            | 246,508          |
| 31 - 60 days  | 51,406            | 56,151           |
| 61 - 90 days  | 51,424            | 55,985           |
| >90 days  | 4,488,498         | 4,652,448        |
|   | 4,603,665         | 5,011,092        |
| Less: Allowance for impairment                                    | (3,144,345)       | (3,393,294)      |
|   | <b>1,459,320</b>  | <b>1,617,798</b> |
| <b>Industrial Past due and Impaired</b>                           |                   |                  |
| 31-60 days  | 51,406            | 56,151           |
| 61-90 days  | 51,424            | 55,985           |
| > 90 days   | 4,488,498         | 4,652,448        |
|   | <b>4,591,328</b>  | <b>4,764,584</b> |
| <b>National and provincial government</b>                         |                   |                  |
| Current (0 -30 days)  | 128,881           | 206,696          |
| 31 - 60 days  | 70,269            | 62,238           |
| 61 - 90 days  | 70,304            | 62,273           |
| 91 - 120 days   | 4,903,464         | 5,804,148        |
|   | 5,172,918         | 6,135,355        |
| Less: Allowance for impairment                                    | (4,303,656)       | (5,173,902)      |
|   | <b>869,262</b>    | <b>961,453</b>   |
| <b>National and Provincial Governments- Past due and Impaired</b> |                   |                  |
| 31- 60 days   | 70,269            | 62,238           |
| 61- 90 days   | 70,304            | 62,273           |
| > 90 days   | 4,903,464         | 5,804,148        |
|   | <b>5,044,037</b>  | <b>5,928,659</b> |
| <b>Total</b>  |                   |                  |
| Current (0 -30 days)  | 324,322           | 1,038,459        |
| 31 - 60 days  | 280,220           | 264,513          |
| 61 - 90 days  | 303,698           | 249,905          |
| 91 - 120 days   | 20,388,273        | 16,993,393       |
|   | 21,296,513        | 18,546,270       |
| Less: Allowance for impairment                                    | (4,918,189)       | (16,784,367)     |
|   | <b>16,378,323</b> | <b>1,761,903</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 5. Receivables from non exchange transactions (continued)

#### Reconciliation of allowance for impairment

|                                  |                   |                   |
|----------------------------------|-------------------|-------------------|
| Balance at beginning of the year | 16,784,367        | 13,489,006        |
| Contributions to allowance       | 1,033,287         | 3,295,361         |
|                                  | <u>17,817,654</u> | <u>16,784,367</u> |

#### Consumer receivables pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality.

#### Credit quality of receivables from non exchange transactions

The credit quality of receivables from non exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from rates are billed monthly. Interest is charged on overdue consumers receivables at a rate of 15% per annum. No interest is charged on overdue traffic fines debtors.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

### 6. VAT receivable

|     |                   |                   |
|-----|-------------------|-------------------|
| VAT | <u>17,535,662</u> | <u>31,762,180</u> |
|-----|-------------------|-------------------|

VAT receivable amount is made up of two basis as follows:

#### Cash Basis

|             |           |            |
|-------------|-----------|------------|
| VAT Input   | -         | 927,544    |
| VAT Control | 3,398,584 | 16,559,070 |

#### Accruals basis

|   |                   |                   |
|---|-------------------|-------------------|
| Creditors VAT Provisional                     | 3,398,584         | 17,486,614        |
| Creditors VAT Provisional ( Contingent asset) | 14,247,056        | 16,838,010        |
| Creditors VAT provisional ( AG Laman)         | 407,001           | 76,661            |
| Debtors VAT Provisional                       | -                 | (2,160,112)       |
| Debtors VAT provisional ( Contingent Asset)   | (503,185)         | (437,056)         |
|   | (13,795)          | (41,938)          |
|   | <u>17,535,661</u> | <u>31,762,179</u> |

Other write offs already taken into account on the VAT Control

|   |                  |                  |
|---|------------------|------------------|
| Sars Assesments during the year                 | 1 979 540        | 6 646 881        |
| Penalties and Interest during the year-Incurred | 371 598          | 1 292 195        |
| Penalties and Interest during the year          | <u>-121 498</u>  | <u>0</u>         |
|   | <u>2 229 640</u> | <u>7 939 077</u> |

### 7. Other debtors from exchange transactions

|                 |                |                |
|-----------------|----------------|----------------|
|                 | 2016           | 2015           |
| SALGA           | 742 224        |                |
| ABSA and others | 33 224         |                |
| Mozi Auction    |                | 531 385        |
| <b>Total</b>    | <b>776 025</b> | <b>531 385</b> |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 7. Other debtors from exchange transactions (continued)

SALGA relates to membership paid in full in the 2015/16 financial year relating to the 2016/17 financial year.  
ABSA relates to the amounts fraudulently deducted from the municipal bank account.

### 8. Inventories

|        |           |         |
|--------|-----------|---------|
| Stores | 1,332,933 | 520,855 |
|--------|-----------|---------|

#### 8.1 Inventory is categorised as follows;

|                                  |                  |                |
|----------------------------------|------------------|----------------|
| Construction Material            | 699,920          | 243,482        |
| Protective and Cleaning Material | 27,006           | 45,550         |
| Gardening                        | 5,776            | 25,190         |
| Mechanical Tools                 | 31,655           | 38,425         |
| Spare parts                      | 265,319          | 46,438         |
| Fuel and Oil                     | 303,257          | 121,770        |
|                                  | <b>1,332,933</b> | <b>520,855</b> |

#### Inventory pledged as security

No inventory item was pledged as security for any facilities.

### 9. Investment property

|                     | 2016                |   |                | 2015                |   |                |
|---------------------|---------------------|---|----------------|---------------------|---|----------------|
|                     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value |
| Investment property | 11,461,003          | -   | 11,461,003     | 11,461,003          | -   | 11,461,003     |

#### Reconciliation of investment property - 2016

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 11,461,003         | 11,461,003 |

#### Reconciliation of investment property - 2015

|                     | Opening<br>balance | Total      |
|---------------------|--------------------|------------|
| Investment property | 11,461,003         | 11,461,003 |

#### Pledged as security

None of the above investment property has been pledged as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

2016

2015

### 10. Property, plant and equipment

|                        | 2016                |   |                    | 2015                |   |                    |
|------------------------|---------------------|---|--------------------|---------------------|---|--------------------|
|                        | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     | Cost /<br>Valuation | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value     |
| Buildings              | 67,942,292          | (3,235,613)   | 64,706,679         | 67,942,292          | (2,779,207)   | 65,163,085         |
| Plant and machinery    | 35,153,732          | (8,578,278)   | 26,575,454         | 34,913,800          | (6,692,847)   | 28,220,953         |
| Furniture and fixtures | 1,034,270           | (431,704)   | 602,566            | 810,382             | (325,867)   | 484,515            |
| Motor vehicles         | 3,635,496           | (1,708,245)   | 1,927,251          | 2,437,962           | (1,360,233)   | 1,077,729          |
| Office equipment       | 619,142             | (227,125)   | 392,017            | 320,004             | (153,505)   | 166,499            |
| IT equipment           | 1,573,934           | (653,508)   | 920,426            | 1,085,236           | (503,654)   | 581,582            |
| Infrastructure         | 350,945,240         | (169,712,385)   | 181,232,855        | 342,326,393         | (147,230,240)   | 195,096,153        |
| Community Assets       | 13,055,758          | (3,289,918)   | 9,765,840          | 13,055,758          | (2,846,141)   | 10,209,617         |
| Infrastructure - WIP   | 69,065,834          | -   | 69,065,834         | 50,880,977          | -   | 50,880,977         |
| Cellular equipment     | 878,106             | (762,073)   | 116,033            | 855,529             | (422,315)   | 433,214            |
| <b>Total</b>           | <b>543,903,804</b>  | <b>(188,598,849)</b>  | <b>355,304,955</b> | <b>514,628,333</b>  | <b>(162,314,009)</b>  | <b>352,314,324</b> |

### Reconciliation of property, plant and equipment - 2016

|                        | Opening<br>balance | Additions         | Disposals       | Transfers<br>received | Transfers          | Depreciation        | Total              |
|------------------------|--------------------|-------------------|-----------------|-----------------------|--------------------|---------------------|--------------------|
| Buildings              | 65,163,085         | -                 | -               | -                     | -                  | (456,406)           | 64,706,679         |
| Plant and machinery    | 28,220,953         | 239,931           | -               | -                     | -                  | (1,885,430)         | 26,575,454         |
| Furniture and fixtures | 484,515            | 223,888           | -               | -                     | -                  | (105,837)           | 602,566            |
| Motor vehicles         | 1,077,729          | 1,197,534         | -               | -                     | -                  | (348,012)           | 1,927,251          |
| Office equipment       | 166,499            | 299,138           | -               | -                     | -                  | (73,620)            | 392,017            |
| IT equipment           | 581,582            | 550,698           | (18,178)        | -                     | -                  | (193,676)           | 920,426            |
| Infrastructure         | 195,096,153        | -                 | -               | 8,618,848             | -                  | (22,482,146)        | 181,232,855        |
| Community Assets       | 10,209,617         | -                 | -               | -                     | -                  | (443,777)           | 9,765,840          |
| Infrastructure - WIP   | 50,880,977         | 26,803,705        | -               | -                     | (8,618,848)        | -                   | 69,065,834         |
| Cellular equipment     | 433,214            | 22,577            | -               | -                     | -                  | (339,758)           | 116,033            |
| <b>Total</b>           | <b>352,314,324</b> | <b>29,337,471</b> | <b>(18,178)</b> | <b>8,618,848</b>      | <b>(8,618,848)</b> | <b>(26,328,662)</b> | <b>355,304,955</b> |

### Reconciliation of property, plant and equipment - 2015

|   | Opening<br>balance | Additions         | Disposals        | Transfers<br>received | Transfers           | Depreciation        | Total              |
|---|--------------------|-------------------|------------------|-----------------------|---------------------|---------------------|--------------------|
| Buildings                                 | 65,339,118         | 341,436           | -                | -                     | -                   | (517,469)           | 65,163,085         |
| Plant and machinery                       | 29,371,669         | 1,292,748         | (249,809)        | -                     | -                   | (2,193,655)         | 28,220,953         |
| Furniture and fixtures                    | 439,333            | 199,256           | (63,381)         | -                     | -                   | (90,693)            | 484,515            |
| Motor vehicles                            | 1,704,135          | -                 | (288,425)        | -                     | -                   | (337,981)           | 1,077,729          |
| Office equipment and traffic<br>equipment | 133,562            | 121,740           | (32,709)         | -                     | -                   | (56,094)            | 166,499            |
| IT equipment                              | 526,732            | 326,748           | (120,879)        | -                     | -                   | (151,019)           | 581,582            |
| Infrastructure                            | 205,086,498        | -                 | -                | 16,651,978            | -                   | (26,642,323)        | 195,096,153        |
| Community Assets                          | 10,692,202         | -                 | -                | -                     | -                   | (482,585)           | 10,209,617         |
| Infrastructure - WIP                      | 43,823,578         | 23,709,377        | -                | -                     | (16,651,978)        | -                   | 50,880,977         |
| Cellular Equipment                        | 328,659            | 432,271           | -                | -                     | -                   | (327,716)           | 433,214            |
| <b>Total</b>                              | <b>357,445,486</b> | <b>26,423,576</b> | <b>(755,203)</b> | <b>16,651,978</b>     | <b>(16,651,978)</b> | <b>(30,799,535)</b> | <b>352,314,324</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 10. Property, plant and equipment (continued)

#### Pledged as security

The municipality purchased plant and machinery through an installment sale agreement as well as cellular equipment.

There were no assets held as security for loan

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 11. Payables from exchange transactions

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Trade payables                      | 7,928,603         | 13,416,780        |
| Payments received in advance        | 1,099,302         | 782,385           |
| OR Tambo District Municipality Loan | 8,741,162         | 8,741,165         |
| Unallocated deposits                | 120,420           | 6,000             |
| Retentions                          | 11,573,603        | 5,309,761         |
|                                     | <b>29,463,090</b> | <b>28,256,091</b> |

### 12. Finance lease obligation

#### Minimum lease payments due

|  |                   |                   |
|--|-------------------|-------------------|
| - within one year                              | 10,536,503        | 14,345,532        |
| - in second to fifth year inclusive            | 1,502             | 125,525           |
|  | <b>10,538,005</b> | <b>14,471,057</b> |
| less: future finance charges                   | (4,500)           | (2,844,066)       |
| <b>Present value of minimum lease payments</b> | <b>10,533,505</b> | <b>11,626,991</b> |

#### Present value of minimum lease payments due

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| - within one year                   | 10,532,048        | 11,526,747        |
| - in second to fifth year inclusive | 1,457             | 100,244           |
|                                     | <b>10,533,505</b> | <b>11,626,991</b> |
| Non-current liabilities             | 1,457             | 100,244           |
| Current liabilities                 | 10,532,048        | 11,526,747        |
|                                     | <b>10,533,505</b> | <b>11,626,991</b> |

It is municipality policy to lease certain equipment under finance leases.

The average lease term was 2.5 years and the average interest rate varies between 9% and 35% per annum.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note .

### 13. Unspent conditional grants and receipts

#### Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|                                     |                |          |
|-------------------------------------|----------------|----------|
| Finance management grant            | 419,872        | -        |
| Municipal systems improvement grant | 126,751        | -        |
|                                     | <b>546,623</b> | <b>-</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 13. Unspent conditional grants and receipts (continued)

#### Movement during the year

|                                      |                |              |
|--------------------------------------|----------------|--------------|
| Balance at the beginning of the year | -              | 14,169,030   |
| Additions during the year            | 29,284,920     | 44,699,360   |
| Income recognition during the year   | (28,738,297)   | (58,868,390) |
|                                      | <u>546,623</u> | <u>-</u>     |

See note 20 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised. Refer to Note 3.

### 14. Operating lease asset (accrual)

#### Minimum lease payments

|                           |                  |                  |
|---------------------------|------------------|------------------|
| Within 1 year             | 148,434          | 136,145          |
| In the second to 5th year | 968,283          | 678,806          |
| After five years          | 5,708,950        | 6,451,893        |
|                           | <u>6,825,667</u> | <u>7,266,844</u> |

### 15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

|                             |                    |                    |
|-----------------------------|--------------------|--------------------|
| Employee benefit obligation | (2,128,356)        | (1,981,000)        |
| Non-current liabilities     | (1,898,031)        | (1,472,000)        |
| Current liabilities         | (230,325)          | (509,000)          |
|                             | <u>(2,128,356)</u> | <u>(1,981,000)</u> |

Changes in the present value of the long service award obligation are as follows:

|   |                  |                  |
|---|------------------|------------------|
| Opening balance   | 1,981,000        | 1,822,000        |
| Net expense recognised in the statement of financial position | 147,356          | 159,000          |
|   | <u>2,128,356</u> | <u>1,981,000</u> |

#### Net expense of the long service awards obligation recognised in the statement of financial performance

|                          |                |                |
|--------------------------|----------------|----------------|
| Opening balance          | 586,000        | 427,000        |
| Current service cost     | 320,000        | 298,000        |
| Benefit paid             | (562,000)      | (85,821)       |
| Interest cost            | 189,000        | 155,000        |
| Actuarial (gains) losses | (361,644)      | (208,179)      |
|                          | <u>171,356</u> | <u>586,000</u> |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 16. Provisions

#### Reconciliation of provisions - 2016

|   | Opening Balance | Increase due to unwinding of discount | Total     |
|---|-----------------|---------------------------------------|-----------|
| Environmental rehabilitation - landfill sites | 4,801,824       | 292,911                               | 5,094,735 |

#### Reconciliation of provisions - 2015

|   | Opening Balance | Additions | Reversed during the year | Reduction due to re-measurement or settlement without cost to entity | Total     |
|---|-----------------|-----------|--------------------------|--|-----------|
| Environmental rehabilitation - landfill sites | 4,343,092       | 206,131   | 57,162                   | 195,439  | 4,801,824 |

The landfill site provision relates to the costs of rehabilitating the landfill site when it reaches the end of its useful in 2035 and has been discounted to reflect its present value.

### 17. Capital reserve

|   |           |           |
|---|-----------|-----------|
| Internally generated assets capitalised | 8,075,113 | 3,094,217 |
|---|-----------|-----------|

### 18. Accumulated surplus

#### Changes in Accumulated surplus

|                      | Accumulated Surplus | Total              |
|----------------------|---------------------|--------------------|
| Opening balance      | 356,559,153         | 356,559,153        |
| Surplus for the year | 13,226,910          | 13,226,910         |
| Prior period error   | 72,088              | 72,088             |
|                      | <b>369,858,151</b>  | <b>369,858,151</b> |

#### Ring-fenced internal funds and reserves within accumulated surplus - 2015

|                    | Accumulated Surplus | Total              |
|--------------------|---------------------|--------------------|
| Opening balance    | 342,163,730         | 342,163,730        |
| Surplus            | 10,561,608          | 10,561,608         |
| Prior period error | 3,833,815           | 3,833,815          |
|                    | <b>356,559,153</b>  | <b>356,559,153</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand   | 2016               | 2015               |
|---|--------------------|--------------------|
| <b>19. Revenue</b>  |                    |                    |
| Service charges   | 755,693            | 726,277            |
| Property rates  | 6,741,055          | 3,962,250          |
| Government grants and subsidies   | 149,272,297        | 143,535,495        |
| Interest received - trading   | 2,946,098          | 2,550,539          |
| Interest received - investment  | 1,650,441          | 808,187            |
| Public contributions and donations  | 2,500              | 724,495            |
| Rental income   | 34,025             | 58,056             |
| Other income  | 559,520            | 292,457            |
| Fines, penalties and forfeits   | 290,100            | 285,650            |
| Licence and Permits   | 45,444             | 24,267             |
|   | <b>162,297,173</b> | <b>152,967,673</b> |
| <b>The amount included in revenue arising from exchanges of goods or services are as follows:</b> |                    |                    |
| Service charges   | 755,693            | 726,277            |
| Rental of facilities and equipment  | 34,025             | 58,056             |
| Interest received (trading)   | 2,946,098          | 2,550,539          |
| Other income  | 559,520            | 292,457            |
| Interest received - investment  | 1,650,441          | 808,187            |
|   | <b>5,945,777</b>   | <b>4,435,516</b>   |
| <b>The amount included in revenue arising from non-exchange transactions is as follows:</b>       |                    |                    |
| <b>Taxation revenue</b>   |                    |                    |
| Property rates  | 6,741,055          | 3,962,250          |
| <b>Transfer revenue</b>   |                    |                    |
| Government grants and subsidies   | 149,272,297        | 143,535,495        |
| Public contributions and donations  | 2,500              | 724,495            |
| Fines, penalties and forfeits   | 290,100            | 285,650            |
| Licence and Permits   | 45,444             | 24,267             |
|   | <b>156,351,396</b> | <b>148,532,157</b> |
| <b>20. Interest received - Investment</b>   |                    |                    |
| <b>Interest revenue</b>   |                    |                    |
| Bank and SARS   | 1,650,441          | 808,187            |
| <b>21. Service charges</b>  |                    |                    |
| Refuse removal  | 755,693            | 726,277            |
| <b>22. Rental income</b>  |                    |                    |
| Halls and Bill boards   | 34,025             | 58,056             |
| <b>23. Other income</b>   |                    |                    |
| Insurance claims received   | 173,960            | 77,189             |
| Plan and tender documents fees  | 243,373            | 145,656            |
| Sundry Income   | 79,988             | 4,424              |
| Grave sites   | 9,833              | 31,431             |
| Commission received   | 52,366             | 33,757             |
|   | <b>559,520</b>     | <b>292,457</b>     |

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

### Notes to the Annual Financial Statements

| Figures in Rand           | 2016             | 2015             |
|---------------------------|------------------|------------------|
| <b>24. Property rates</b> |                  |                  |
| <b>Rates received</b>     |                  |                  |
| Income forgone/Rebate     | (489,631)        | (15,618)         |
| Rates                     | 7,230,686        | 3,977,868        |
|                           | <u>6,741,055</u> | <u>3,962,250</u> |

Income forgone relates to discounts granted to ratepayers as per the approved municipal tariff schedule and policies

#### Valuations

|                          |                    |                    |
|--------------------------|--------------------|--------------------|
| Residential              | 127,137,359        | 129,006,759        |
| Commercial               | 125,832,640        | 101,936,140        |
| State                    | 160,028,500        | 60,255,900         |
| Small holdings and farms | 23,167,750         | 23,312,750         |
| Vacant plots             | 44,314,669         | 42,309,669         |
|                          | <u>480,480,918</u> | <u>356,821,218</u> |

Valuations on land and buildings are performed every four (4) years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.06 (2015: 0.06) is applied to property valuations to determine assessment rates. Rebates of 30% (2015: 30%) are granted to state property owners.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand                            | 2016               | 2015               |
|--|--------------------|--------------------|
| <b>25. Government grants and subsidies</b> |                    |                    |
| <b>Operating grants</b>                    |                    |                    |
| Equitable share                            | 120,534,000        | 84,610,000         |
| Extended public works programme            | 1,149,001          | 1,119,000          |
| Municipal systems improvement grant        | 803,248            | 989,264            |
| Finance management grant                   | 1,380,128          | 1,849,894          |
| LG SETA                                    | 1,027,920          | 1,332,695          |
| Municipal support programme                | -                  | 5,235,187          |
| Local economic development                 | -                  | 3,649,987          |
| Provincial -DSRAC                          | 100,000            | 210,000            |
|  | <u>124,994,297</u> | <u>98,996,027</u>  |
| <b>Capital grants</b>                      |                    |                    |
| Municipal infrastructure grant             | 24,278,000         | 44,539,468         |
|  | <u>24,278,000</u>  | <u>44,539,468</u>  |
|  | <u>149,272,297</u> | <u>143,535,495</u> |

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 50 kWh which is funded from the equitable share grant. Refuse removal services for a tariff of R96.67 are offered for free to the indigent community of Mtumbane village.

### Grants

|   |                |              |
|---|----------------|--------------|
| Balance unspent at beginning of year    | -              | 14,169,030   |
| Current-year receipts                   | 29,284,920     | 44,699,360   |
| Conditions met - transferred to revenue | (28,738,297)   | (58,868,390) |
|   | <u>546,623</u> | <u>-</u>     |

### Municipal infrastructure grant

|   |              |              |
|---|--------------|--------------|
| Balance unspent at beginning of year    | -            | 7,541,468    |
| Current-year receipts                   | 24,278,000   | 36,998,000   |
| Conditions met - transferred to revenue | (24,278,000) | (44,539,468) |
|   | <u>-</u>     | <u>-</u>     |

To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions, servicing poor communities.

### Finance management grant

|   |                |             |
|---|----------------|-------------|
| Balance unspent at beginning of year    | -              | 49,894      |
| Current-year receipts                   | 1,800,000      | 1,800,000   |
| Conditions met - transferred to revenue | (1,380,128)    | (1,849,894) |
|   | <u>419,872</u> | <u>-</u>    |

To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act.

### Municipal systems improvement grant

|   |                |           |
|---|----------------|-----------|
| Current-year receipts                   | 930,000        | 934,000   |
| Conditions met - transferred to revenue | (803,248)      | (934,000) |
|   | <u>126,752</u> | <u>-</u>  |



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 25. Government grants and subsidies (continued)

To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act.

#### Expanded public works programme

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 1,149,000   | 1,119,000   |
| Conditions met - transferred to revenue | (1,149,000) | (1,119,000) |
|   | -           | -           |

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas..

#### Municipal support programme

|   |   |             |
|---|---|-------------|
| Balance unspent at beginning of year    | - | 3,735,187   |
| Current-year receipts                   | - | 1,500,000   |
| Conditions met - transferred to revenue | - | (5,235,187) |
|   | - | -           |

The specific objective of the MSP is to improve the capacities for good governance and municipal management at the local level, to improve local services to citizens and to enhance local economic development by strengthening local organisations, the standing conference of town and municipalities - central government cooperation.

#### LG SETA

|   |             |             |
|---|-------------|-------------|
| Balance unspent at beginning of year    | 1           | 384,336     |
| Current-year receipts                   | 1,027,920   | 948,360     |
| Conditions met - transferred to revenue | (1,027,920) | (1,332,695) |
|   | 1           | 1           |

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan( SSP) and the priorities set out in the national skills development strategy ( NSDS 111) . In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

#### Local economic development

|   |             |             |
|---|-------------|-------------|
| Balance unspent at beginning of year    | -           | 2,349,987   |
| Current-year receipts                   | 1,027,920   | 1,300,000   |
| Conditions met - transferred to revenue | (1,027,920) | (3,649,987) |
|   | -           | -           |

Beautify open spaces, enhance and uplift the PSJ town. Provision of waste management infrastructure. Provision of road traffic signage and signage targeting beach front. Strengthening of shift work cleaning programme and targeted cleaning in hot spot areas.

#### Department of sports, recreation, arts and culture

|   |           |           |
|---|-----------|-----------|
| Balance unspent at beginning of year    | -         | 110,000   |
| Current-year receipts                   | 100,000   | 100,000   |
| Conditions met - transferred to revenue | (100,000) | (210,000) |
|   | -         | -         |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand   | 2016              | 2015              |
|---|-------------------|-------------------|
| <b>25. Government grants and subsidies (continued)</b>  |                   |                   |
| The purpose of the grant is to maintain existing library facilities , assist in supervising and adminstration of staff in public libraries, establish library structures , support libray awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts |                   |                   |
| <b>26. Employee related costs</b>   |                   |                   |
| Basic   | 38,615,197        | 35,510,273        |
| Bonus   | 73,377            | (293,687)         |
| Medical aid - company contributions   | 3,828,391         | 3,048,036         |
| UIF   | 536,860           | 481,619           |
| Leave pay provision charge  | 111,235           | (32,530)          |
| Defined contribution plans  | 5,591,779         | 4,315,997         |
| Long-service awards   | 320,000           | 298,000           |
| Benefits paid   | -                 | (85,821)          |
| Payroll accrued expenses  | -                 | 1,464,907         |
| Acturial gains  | (361,644)         | (208,179)         |
| Allowances  | 1,191             | -                 |
|   | <b>48,716,386</b> | <b>44,498,615</b> |
| <b>Remuneration of Municipal Manager N Pakade -(Appointed 1 April 2016)</b>   |                   |                   |
| Annual Remuneration   | 230,833           | -                 |
| Car Allowance   | 53,750            | -                 |
| Contributions to UIF, Medical and Pension Funds   | 39,613            | -                 |
| Housing, subsistence and travel allowance   | 34,349            | -                 |
|   | <b>358,545</b>    | <b>-</b>          |
| <b>Remuneration of the Chief Financial Officer - Mrs P Gwana ( Appointed 1 July 2015)</b>   |                   |                   |
| Annual Remuneration   | 823,533           | -                 |
| Car Allowance   | 183,235           | -                 |
| Subsistence and travel allowances   | 77,112            | -                 |
| Contributions to UIF, Medical and Pension Funds   | 1,784             | -                 |
|   | <b>1,085,664</b>  | <b>-</b>          |
| <b>Remuneration of Corporate Services Manager - Mr F Guleni ( Appointed 1 Sept 2012)</b>  |                   |                   |
| Annual Remuneration   | 905,531           | 606,000           |
| Car Allowance   | 208,589           | 180,000           |
| Other allowances  | 218,817           | 228,988           |
| Subsistence and travel allowances   | 2,209             | 2,203             |
|   | <b>1,335,146</b>  | <b>1,017,191</b>  |
| <b>Remuneration of Community Services Manager - Mr T Mvukuzo ( Appointed 1 Sept 2012)</b>   |                   |                   |
| Annual Remuneration   | 1,045,285         | 726,600           |
| Car Allowance   | 199,522           | 172,176           |
| Other allowances  | 125,640           | 113,836           |
| Contributions to UIF, Medical and Pension Funds   | -                 | 11,486            |
| Contributions to UIF, KGA, LIFEand SALGABC  | 2,209             | 2,203             |
|   | <b>1,372,656</b>  | <b>1,026,301</b>  |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 26. Employee related costs (continued)

#### Remuneration of Engineering Manager - Mr B Tshitshi ( 1 Sept 2012)

|   |                  |                |
|---|------------------|----------------|
| Annual Remuneration                             | 1,114,950        | 696,769        |
| Car Allowance                                   | 147,573          | 140,000        |
| Travel and subsistence allowance                | 61,096           | 156,832        |
| Contributions to UIF, Medical and Pension Funds | 2,209            | -              |
| Acting allowances                               | 19,070           | 2,203          |
|   | <b>1,344,898</b> | <b>995,804</b> |

#### Remuneration of LED Manager - Ms Z Masumpa ( 1 July 2013)

|   |                  |                  |
|---|------------------|------------------|
| Annual Remuneration                       | 1,045,558        | 726,600          |
| Car Allowance                             | 199,249          | 172,176          |
| Performance Bonuses                       | -                | 134,828          |
| Contributions to UIF, KGAlife and SALGABC | 2,209            | 2,203            |
|   | <b>1,247,016</b> | <b>1,035,807</b> |

#### Remuneration of previous Municipal Manager - Mr N Jakuja (left 28 February 2015)

|                             |                  |                |
|-----------------------------|------------------|----------------|
| Annual Remuneration         | 1,200,000        | 542,857        |
| Car Allowance               | -                | 181,676        |
| Contributions to UIF, SALGA | -                | 1,189          |
|                             | <b>1,200,000</b> | <b>725,722</b> |

The remuneration of staff is within the upper limit of the SALGA Bargaining Council determinations.

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

### Notes to the Annual Financial Statements

| Figures in Rand                        | 2016              | 2015              |
|--|-------------------|-------------------|
| <b>27. Remuneration of councillors</b> |                   |                   |
| Councillors                            | <u>11,393,947</u> | <u>10,289,738</u> |

#### In-kind benefits

Mayor, Speaker, Chief Whip and executive committee members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

2016

2015

### 27. Remuneration of councillors (continued)

| 2016           | Annual remuneration | Backpay        | Car Allowance    | Cellphone Allowance | Subsistence and travel | Total             |
|----------------|---------------------|----------------|------------------|---------------------|------------------------|-------------------|
| Mfiki NM       | 155,156             | 7,063          | 51,719           | 13,788              | 520                    | 228,246           |
| Nokhanda B     | 387,104             | 16,188         | 133,071          | 13,788              | 30,870                 | 581,021           |
| Langa P        | 516,139             | 21,584         | 172,042          | -                   | 2,340                  | 712,105           |
| Khukula T      | 412,910             | 17,267         | 137,635          | -                   | 25,214                 | 593,026           |
| Cube ZH        | 155,156             | 7,064          | 51,719           | 13,788              | -                      | 227,727           |
| Lobi SJ        | 170,310             | 112,733        | 56,771           | 13,788              | -                      | 353,602           |
| Zweni RM       | 155,156             | 7,064          | 51,719           | 13,788              | 260                    | 227,987           |
| Z Maqina       | 155,156             | 7,064          | 51,719           | 13,788              | 5,833                  | 233,560           |
| Sotshongaye ST | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Madini D       | 155,156             | 7,064          | 51,719           | 13,788              | 390                    | 228,117           |
| Mhlabeni Z     | 155,156             | 7,064          | 51,719           | 13,788              | 5,223                  | 232,950           |
| Fono KM        | 170,310             | 148,169        | 56,771           | 13,788              | 17,576                 | 406,614           |
| Sophotela      | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Mzaza S        | 213,338             | 9,713          | 71,115           | 13,788              | 19,812                 | 327,766           |
| Mtuku NB       | 170,310             | 117,498        | 56,771           | 13,788              | 2,080                  | 360,447           |
| Mncwati EZ     | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Tani N         | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Mncekisa VN    | 155,156             | 7,064          | 51,719           | 13,788              | -                      | 227,727           |
| Mabovana MS    | 155,156             | 7,064          | 51,719           | 13,788              | -                      | 227,727           |
| Nduku C        | 213,338             | 9,713          | 71,115           | 13,788              | 41,752                 | 349,706           |
| Veni M         | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Moni X         | 175,213             | 26,126         | 58,405           | 13,788              | 1,509                  | 275,041           |
| Fono C         | 155,156             | 7,064          | 51,719           | 13,788              | 1,252                  | 228,979           |
| Diko NF        | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Bokwe NF       | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Tsili M        | 213,338             | 9,713          | 71,115           | 13,788              | 17,706                 | 325,660           |
| Madolo S       | 155,156             | 7,064          | 51,719           | 13,788              | 1,300                  | 229,027           |
| G Tshotho      | 155,156             | 7,064          | 51,719           | 13,788              | 6,483                  | 234,210           |
| Rolobile L     | 213,338             | 9,713          | 71,115           | 13,788              | 28,097                 | 336,051           |
| Ndamase L      | 213,338             | 9,713          | 71,115           | 13,788              | 16,410                 | 324,364           |
| Mbotswa N      | 155,156             | 7,064          | 51,719           | 13,788              | 260                    | 227,987           |
| Kotana MPJ     | 213,838             | 9,713          | 71,115           | 13,788              | -                      | 308,454           |
| Mtiki Z        | 155,156             | 7,064          | 51,719           | 13,788              | 520                    | 228,247           |
| Ndakayi N      | 213,338             | 9,713          | 71,115           | 13,788              | 23,794                 | 331,748           |
| Nompaka        | 155,156             | 7,064          | 51,719           | 13,788              | 5,953                  | 233,680           |
| Tshitshiliza N | 155,156             | 7,064          | 51,719           | 13,788              | 2,210                  | 229,937           |
| Nomagedeshe B  | 170,310             | 55,538         | 56,778           | 13,788              | 2,150                  | 298,564           |
| Hobo M         | 155,156             | 7,064          | 51,719           | 13,788              | 2,040                  | 229,767           |
| Tayi HS        | 155,154             | 49,895         | 22,285           | 5,745               | 3,096                  | 236,175           |
|                | <b>7,390,214</b>    | <b>795,460</b> | <b>2,437,871</b> | <b>502,113</b>      | <b>268,290</b>         | <b>11,393,948</b> |

| 2015       | Annual remuneration | Backpay | Car Allowance | Cellphone allowance | Subsistence and travel allowance | Total   |
|------------|---------------------|---------|---------------|---------------------|----------------------------------|---------|
| Mfiki P    | 54,129              | 2,312   | 18,044        | 4,596               | 492                              | 79,573  |
| Nokhanda B | 233,393             | 13,497  | 77,800        | 13,788              | 57,566                           | 396,044 |
| Bokwe F    | 144,231             | 9,520   | 48,078        | 13,788              | 5,097                            | 220,714 |
| Khukula T  | 384,619             | 25,387  | 128,204       | -                   | 12,620                           | 550,830 |
| Cube H     | 144,231             | 9,520   | 48,078        | 13,788              | 4,260                            | 219,877 |
| Diko F     | 144,231             | 9,520   | 48,078        | 13,788              | 1,820                            | 217,437 |
| Fono M     | 144,231             | 9,520   | 48,078        | 13,788              | 12,937                           | 228,554 |
| Langa P    | 375,554             | 23,007  | 128,849       | 10,341              | 40,468                           | 578,219 |
| Mangqo D   | 326,835             | -       | 108,925       | -                   | 3,770                            | 439,530 |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand                             |           |         |           | 2016    | 2015       |            |
|---|-----------|---------|-----------|---------|------------|------------|
| 27. Remuneration of councillors (continued) |           |         |           |         |            |            |
| Fono C                                      | 144,231   | 9,520   | 48,078    | 13,788  | 3,908      | 219,525    |
| Kotana MPJ                                  | 148,962   | 10,722  | 49,655    | 13,788  | 130        | 223,257    |
| Lobi J                                      | 144,231   | 9,520   | 48,078    | 13,788  | 950        | 216,567    |
| Mabovana MS                                 | 144,231   | 9,520   | 48,078    | 13,788  | 5,606      | 221,223    |
| Madini D                                    | 144,231   | 9,520   | 48,078    | 13,788  | 5,405      | 221,022    |
| Madolo S                                    | 144,231   | 9,520   | 48,078    | 13,788  | 650        | 216,267    |
| Maqina Z                                    | 144,231   | 9,520   | 48,078    | 13,788  | 5,524      | 221,141    |
| Mbotshwa N                                  | 144,231   | 9,520   | 48,078    | 13,788  | 390        | 216,007    |
| Mcekisa VN                                  | 144,231   | 11,208  | 48,078    | 13,788  | -          | 217,305    |
| Mhlabeni Z                                  | 144,231   | 9,520   | 48,078    | 13,788  | 2,620      | 218,237    |
| Mncwati Z                                   | 144,231   | 9,520   | 48,078    | 13,788  | 1,040      | 216,657    |
| Moni X                                      | 144,231   | 9,520   | 48,078    | 13,788  | 29,292     | 244,909    |
| Mtiki Z                                     | 144,231   | 9,520   | 48,078    | 13,788  | 5,361      | 220,978    |
| Mtuku B                                     | 144,231   | 9,520   | 48,078    | 13,788  | 1,300      | 216,917    |
| Mzaza S                                     | 198,315   | 12,190  | 66,109    | 13,788  | 59,656     | 350,058    |
| Ndakayi N                                   | 198,315   | 13,090  | 66,109    | 13,788  | 40,873     | 332,175    |
| Zweni M                                     | 144,231   | 9,520   | 48,078    | 13,788  | 390        | 216,007    |
| Ndamase L                                   | 198,315   | 13,090  | 66,109    | 13,788  | 46,199     | 337,501    |
| Nompaka T                                   | 144,231   | 9,520   | 48,078    | 13,788  | 14,538     | 230,155    |
| Nduku C                                     | 198,315   | 13,090  | 66,109    | 13,788  | 65,450     | 356,752    |
| Nomagedesh B                                | 144,231   | 9,520   | 48,078    | 13,788  | 9,423      | 225,040    |
| Rolobile L                                  | 228,239   | 13,090  | 66,109    | 13,788  | 16,194     | 337,420    |
| Sophotela MN                                | 144,231   | 9,520   | 48,078    | 13,788  | 1,040      | 216,657    |
| Sotshongaye ST                              | 144,231   | 9,520   | 48,078    | 13,788  | 4,411      | 220,028    |
| Tani N                                      | 144,231   | 9,520   | 48,078    | 13,788  | 1,040      | 216,657    |
| Tobela GF                                   | 32,725    | -       | 10,909    | 2,298   | -          | 45,932     |
| Tshitshiliza N                              | 144,231   | 9,520   | 48,078    | 13,788  | 1,300      | 216,917    |
| Tshotho G                                   | 144,231   | 9,520   | 48,078    | 13,788  | 5,863      | 221,480    |
| Tsili M                                     | 198,315   | 13,090  | 66,109    | 13,788  | 27,072     | 318,374    |
| Veni M                                      | 144,231   | 9,520   | 48,078    | 13,788  | 5,773      | 221,390    |
| M Hobo                                      | 120,431   | 7,616   | 40,145    | 11,490  | 390        | 180,072    |
| HS Tayi                                     | 22,225    | -       | 3,204     | 875     | -          | 26,304     |
|   | 6,668,693 | 409,389 | 2,212,417 | 498,392 | 500,818    | 10,289,709 |
| 28. Debt impairment                         |           |         |           |         |            |            |
| Debt impairment                             |           |         |           |         | 1,920,263  | 3,848,026  |
| 29. Depreciation                            |           |         |           |         |            |            |
| Property, plant and equipment               |           |         |           |         | 26,328,661 | 30,811,366 |
| 30. Contracted services                     |           |         |           |         |            |            |
| Current borrowings                          |           |         |           |         | (1,862)    | 84,011     |
| Capitalised                                 |           |         |           |         | -          | 36,200     |
| Other interest paid                         |           |         |           |         | 7,017,062  | 10,356,191 |
|   |           |         |           |         | 7,015,200  | 10,476,402 |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand                      | 2016              | 2015              |
|--------------------------------------|-------------------|-------------------|
| <b>31. Contracted services</b>       |                   |                   |
| Legal fees                           | 1,666,810         | 714,015           |
| Security costs                       | 1,412,387         | 1,631,929         |
| Consultancy and professional fees    | 10,950,106        | 2,079,575         |
|                                      | <b>14,029,303</b> | <b>4,425,519</b>  |
| <b>32. Grants and subsidies paid</b> |                   |                   |
| <b>Other subsidies</b>               |                   |                   |
| LED Programmes- (PSJDA)              | 6,043,566         | 5,033,220         |
| <b>33. General expenses</b>          |                   |                   |
| Accounting fees                      | 57,112            | -                 |
| Advertising                          | 178,199           | 339,968           |
| Auditors remuneration                | 2,684,176         | 3,724,663         |
| Bank charges                         | 94,618            | 102,662           |
| Commission paid                      | 139,970           | 127,584           |
| Consumables                          | 107,582           | 296,964           |
| Entertainment                        | 243,502           | 190,874           |
| Insurance                            | 981,458           | 1,091,671         |
| Promotions and sponsorships          | -                 | 43,390            |
| Books and publications               | 83,456            | 61,291            |
| Motor vehicle expenses               | 747,735           | 181,729           |
| Fuel and oil                         | 1,888,479         | 2,429,327         |
| Postage and courier                  | 311               | -                 |
| Printing and stationery              | 814,582           | 752,465           |
| License fees                         | 178,209           | 194,428           |
| Software expenses                    | -                 | 108,184           |
| Subscriptions and membership fees    | 805,707           | 9,112             |
| Telephone and fax                    | 2,727,188         | 1,881,038         |
| Training                             | 754,372           | 630,653           |
| Travel - local                       | 2,854,756         | 3,939,794         |
| Refuse bags                          | 6,386             | -                 |
| Assets expensed                      | -                 | 1,347,138         |
| Electricity                          | 2,439,152         | 2,262,611         |
| Uniforms                             | 446,894           | 544,429           |
| Penalty Charges                      | -                 | 209,795           |
| Project expenses                     | 1,755,561         | 5,090,594         |
| Social responsibility programmes     | 2,206,892         | 2,034,644         |
| SDL                                  | 522,140           | 482,731           |
| Consumables and beverages            | 28,137            | 26,780            |
| Convention bureau                    | -                 | 6,500             |
| Other expenses                       | 7,640,545         | 8,535,935         |
|                                      | <b>30,387,119</b> | <b>36,646,954</b> |
| <b>34. Auditors' remuneration</b>    |                   |                   |
| Fees                                 | 2,684,176         | 3,724,663         |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand   | 2016              | 2015              |
|---|-------------------|-------------------|
| <b>35. Net cash flows from operating activities</b>   |                   |                   |
| Surplus   | 13,226,910        | 3,833,815         |
| <b>Adjustments for:</b>   |                   |                   |
| Depreciation and amortisation   | 26,328,661        | 30,811,366        |
| Gain on sale of assets and liabilities  | 18,177            | 263,526           |
| Debt impairment   | 1,920,263         | 3,848,026         |
| <b>Changes in working capital:</b>  |                   |                   |
| VAT refund  | 20,350,148        | 667,233           |
| Other non cash transactions   | (5,066,536)       | 33,686            |
|   | <b>56,777,623</b> | <b>39,457,652</b> |
| <b>36. Commitments</b>  |                   |                   |
| <b>Authorised capital expenditure</b>   |                   |                   |
| <b>Already contracted for but not provided for</b>  |                   |                   |
| • Property, plant and equipment   | 58,739,912        | 49,583,444        |
| <b>Total capital commitments</b>  | 58,739,912        | 49,583,444        |
| Already contracted for but not provided for   |                   |                   |
| <b>Total commitments</b>  |                   |                   |
| <b>Total commitments</b>  |                   |                   |
| Authorised capital expenditure  | 58,739,912        | 49,583,444        |
| This committed expenditure relates to access roads and will be financed by mainly the Municipal Infrastructure Grant. |                   |                   |
| <b>Operating leases liability</b>   |                   |                   |
| <b>Minimum lease payments due</b>   |                   |                   |
| - within one year   | 148,434           | 136,145           |
| - in second to fifth year inclusive   | 968,283           | 678,806           |
| - later than five years   | 5,708,950         | 6,451,893         |
|   | <b>6,825,667</b>  | <b>7,266,844</b>  |

Operating lease payments represent rentals payable by the municipality for certain of equipment and internet services. The Municipality entered into an agreement with Transnet for long term lease of land over a period of 30 years. No contingent rent is payable.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 37. Contingencies

#### Asset

PSJM and M.T Mfecane is the defendant. This is an interdict against Mr. Mfecane to stop building on the property of the Municipality. The estimated cost to municipality is around R150 000.

PSJM and OceanView - The municipality instituted action against Mr Mugwanya for arrear rates in sum of R170 000.

PSJM and Coastal properties the municipality instituted action against Coastal properties Pty Ltd in the sum of R225 00

Port St Johns Taxi Association/PSJ

The municipality instituted action against Port St Johns Taxi Owners Primary Co- operative Ltd for arrear rates. Waiting for a court appearance to defend the lapse in order to take further steps. Estimate R50 000.

#### Liability

Nozipho F Bokwe vs PSJM - A civil action brought by the opposition to nullify the resolution of the council to reinstate the employees that have been dismissed. Estimated cost of finalisation is about R200 000.

Zamani Civils vs PSJM Civil claim allegedly suffered as a result of the municipality terminating the contract for the upgrading of CBD and estimated cost is R11 000 000

Bodlani vs PSJM Civil claim for the alleged assault of Mr Bodlani at the second Beach by municipal employees and estimated cost is R650 000

Ncedile Jakuja vs PSJ Municipality. Case handled in Mthatha High Court . Estimated cost R30 000.

Vapi and others/PSJ Municipality. The matter was postponed sine die ( without assigning a day for another meeting) and the court order that the interviews can continue however provided certain conditions are met. Estimated cost R300 000

Kwane vs PSJ. The municipality received a bill of cost from Mtsabe Attorneys for Mr Jakuja cost which was set down for taxation on the 11th of March 2016 which was postponed due attorney requesting certain information as the municipality believe they can not proof his cost. Estimated cost R300 000

Zayadwa Ndabeni and others vs PSJ Municipality. Malicious proceeding. Estimated cost R300 000

Nogumla vs PSJ Municipality . The municipality received summons wherein plaintiff claimed damages for where the individuals were attacked by sharks. Estimate R400 000

Mfecane vs PSJ Municipality . Civil claim for alleged assault of Mr Mfecane by the municipality traffic officer and total estimate amounts to R159 000.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

| Figures in Rand | 2016 | 2015 |
|-----------------|------|------|
|-----------------|------|------|

### 38. Related parties

|                                    |                                      |  |
|------------------------------------|--------------------------------------|--|
| Relationships                      |                                      |  |
| Accounting Officer : Mr Pakade     | Refer to employee related costs      |  |
| Chief Finance Officer              | Refer to employee related costs      |  |
| Corporate services manager         | Refer to employee related costs      |  |
| Community services manager         | Refer to employee related costs      |  |
| Engineering manager                | Refer to employee related costs      |  |
| Local Economic Development Manager | Refer to employee related costs      |  |
| Councillors                        | Refer to remuneration of councillors |  |

### Related party transactions

#### Interest paid to (received from) related parties

|                        |           |           |
|------------------------|-----------|-----------|
| PSL Development Agency | 6,043,566 | 5,033,220 |
|------------------------|-----------|-----------|

Port St John's Development Agency (section 21 company registration no. 1999/009129/08. The Municipality has advanced the Agency with an amount of R6 043 566 (2015:R5 033 220) for its operation and the amount is exclusive of VAT.

### 39. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: credit risk and liquidity risk and market risk.

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets exposed to credit risk at year end were as follows:

|  |           |           |
|--|-----------|-----------|
| Financial instrument                       | 2016      | 2015      |
| Receivables from exchange transactions     | 1,519,087 | 1,194,531 |
| Receivables from non exchange transactions | 3,478,859 | 1,761,903 |

#### Market risk

#### Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The Municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the Municipality's capacity to service such debt from future earnings.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

### Figures in Rand

#### 40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to source funding for the ongoing operations for the municipality.

#### 41. Events after the reporting date

There are no material adjusting and non-adjusting events after the reporting date:

#### 42. Unauthorised expenditure

|                                   |                   |                   |
|-----------------------------------|-------------------|-------------------|
| Opening balance                   | 36,180,562        | 32,455,887        |
| Unauthorised expenditure incurred | -                 | 3,724,675         |
|                                   | <u>36,180,562</u> | <u>36,180,562</u> |

Unauthorised expenditure is due to the expenditure incurred above authorised budget.

#### 43. Fruitless and wasteful expenditure

|  |                   |                   |
|--|-------------------|-------------------|
| Opening Balance                          | 13,896,288        | 12,375,334        |
| PAYE,SDL, and UIF penalties and interest | 366,355           | 1,520,954         |
| Interest Eskom                           | 4,151             | -                 |
| Interest on Telkom                       | 4,485             | -                 |
| Interest on Auditor General              | 27,391            | -                 |
| Laman Interest                           | 2,429,038         | -                 |
|  | <u>16,727,708</u> | <u>13,896,288</u> |

#### 44. Irregular expenditure

|   |                   |                   |
|---|-------------------|-------------------|
| Opening balance                           | 63,550,600        | 33,054,321        |
| Add: Irregular Expenditure - current year | 12,199,883        | 30,496,279        |
|   | <u>75,750,483</u> | <u>63,550,600</u> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 44. Irregular expenditure (continued)

#### Details of irregular expenditure – current year

|  |                   |  |
|--|-------------------|--|
| Truvelo manufactures (pty) Ltd- Only palace suitable for interviews        | 148,340           |  |
| Fine Props CC- Purchasing of petrol and deisel from a local garage         | 3,135             |  |
| Laman Financial Services- Finance lease                                    | 1,465,790         |  |
| Umzimvubu Motots -Purchasing of petrol and diesel from a local garage      | 3,915             |  |
| Att trading Enterprises-Lowbed trailor                                     | 15,392            |  |
| Border ICT- Promun server crashed  | 85,457            |  |
| Mancosa Enrolling of staff   | 130,050           |  |
| Altimax- Consolidation of Financial statements                             | 268,544           |  |
| Altimax- Cnsolidation of Financial statements                              | 712,752           |  |
| Bvumile Okafu transport caters   | 3,000             |  |
| Altimax- Consolidation of financial statements                             | 546,865           |  |
| Swift Travel and accomodation  | 4,393             |  |
| Forthare- Enrolling of staff   | 97,000            |  |
| Nelson Mndela Metropolitan University -Enrolling of employees              | 13,500            |  |
| Altimax Consolidation of fiancial statements                               | 897,038           |  |
| Mancosa-Enrolling of employees   | 14,450            |  |
| BvumileOkafu transport cateres- Transport                                  | 3,000             |  |
| Altimax Consolidation of financial statements                              | 455,525           |  |
| Trellidor -Purchases   | 6,805             |  |
| Altimax- financial statements  | 552,706           |  |
| Forthare Solution-Enrolling of employees                                   | 14,550            |  |
| Unisa-Enrollling of employees  | 8,000             |  |
| Paarl Taxis and Tours  | 3,330             |  |
| Joshua West -Training  | 9,119             |  |
| Laman Financial Services- Finance lease                                    | 2,500,000         |  |
| Unisa- Enrollong of students   | 12,000            |  |
| Laman Financial services   | 2,400,000         |  |
| Sisonke Trading &Investmen- work scope                                     | 51,245            |  |
| Tswella Tradingcc- Construction of road                                    | 83,120            |  |
| Nongo Africa Engineers   | 98,838            |  |
| Njica Building Construction- Professional fees                             | 754               |  |
| Laman Financial Services- Finance lease                                    | 1,500,000         |  |
| Vab Electrical- Supplier payment   | 11,880            |  |
| Insight office furniture- supplier payment                                 | 7,809             |  |
| Quma Funeral Services- supplier payment                                    | 7,500             |  |
| Sulela Electrical- Maintanance on town hall and extension of some function | 28,083            |  |
| Ngozi Mvuselelo Trading- Advert  | 36,000            |  |
|  | <b>12,199,885</b> |  |

45

#### Details of irregular expenditure condoned

### 46. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

|                                 |                |                  |
|---------------------------------|----------------|------------------|
| Opening balance                 | 1,231,180      | 990,013          |
| Current year subscription / fee | 678,377        | 776,645          |
| Amount paid - current year      | (1,329,451)    | (535,478)        |
|                                 | <b>580,106</b> | <b>1,231,180</b> |



## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

### Notes to the Annual Financial Statements

Figures in Rand

#### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

##### Audit fees

|                                 |                  |                  |
|---------------------------------|------------------|------------------|
| Opening balance                 | 2,806,275        | 1,969,630        |
| Current year subscription / fee | 4,301,290        | 4,695,057        |
| Amount paid - current year      | (4,353,375)      | (3,858,412)      |
|                                 | <u>2,754,190</u> | <u>2,806,275</u> |

##### PAYE , UIF and SDL

|                                 |                 |                |
|---------------------------------|-----------------|----------------|
| Opening balance                 | 239,738         | 639,045        |
| Current year subscription / fee | 9,065,486       | 7,761,158      |
| Amount paid - current year      | (9,386,660)     | (8,160,465)    |
|                                 | <u>(81,436)</u> | <u>239,738</u> |

##### Pension and medical aid deductions

|                                 |               |                |
|---------------------------------|---------------|----------------|
| Opening balance                 | 157,554       | -              |
| Current year subscription / fee | 10,377,417    | 8,375,030      |
| Amount paid - current year      | (10,496,788)  | (8,217,476)    |
|                                 | <u>38,183</u> | <u>157,554</u> |

##### VAT

|                |                   |                   |
|----------------|-------------------|-------------------|
| VAT receivable | <u>17,535,662</u> | <u>31,762,180</u> |
|----------------|-------------------|-------------------|

VAT output payables and VAT input receivables are shown in note .

##### Councillors' arrear consumer accounts

All councillors reside in the rural areas of Port St John's Municipality, therefore, they are not billed for any services.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have not been condoned.

#### Sole Provider

|  |        |   |
|--|--------|---|
| Shesha- The books are supplied by Shesha which is the bookshop made available by Mancosa       | 18,720 | - |
| Shesha- The books are supplied by Shesha books which is the bookshop made available by Mancosa | 5,363  | - |
| Post Office- is the only supplier for postage stamps   | 3,600  | - |

#### Emergency

|  |       |   |
|--|-------|---|
| Ntaba River Logde - othe places were fully booked  | 2,600 | - |
| Karibu Guest house- Office of the speaker was informed late about a meeting and SCM offices were closed. | 2,800 | - |

#### Exceptional Case

|   |                |          |
|---|----------------|----------|
| Karibu Guest house- Other places were fully booked  | 2,500          | -        |
| Karibu Guest House- Other places were fully booked  | 5,080          | -        |
| Wild Cost Sun- The Mayor was booked to wild coast sun by OR Tambo Municipality to attend startegic planning sessio, it was convinient to book his body guard and driver at the same place.                              | 11,670         | -        |
| Blue Chip Security Services - advertised the tender of training for six security personnel twice upon the opening of bids there was no response then SCM unit requested the Municipal Manager to request the quotation. | 28,000         | -        |
| Mosuli Guest House- Other Places were fully booked  | 11,480         | -        |
| Mpekweni Beach Resort- Other places were fully booked   | 2,470          | -        |
| Ultra Community Radio- Only radio station which can provide the municipality with time slot for tradional event.  | 4,050          | -        |
| Ntaba River- Other places were fully booked   | 2,600          | -        |
| Top House BnB- Other places were fully booked   | 3,580          | -        |
| Queens- Other places were fully booked  | 2,900          | -        |
| Sleep and dream- Other places were fully booked   | 6,120          | -        |
| Riverside lodge- Other places were fully booked   | 2,130          | -        |
| Hotel Savoy- Other places were fully booked   | 5,045          | -        |
| Dans Country Lodge- other places were fully booked  | 23,040         | -        |
| Seida Towing- Towing of a municipal vehicle   | 3,500          | -        |
| Ikwezi Computer- purchasing of repair part from Ikwezi because other suppliers will not fit   | 27,355         | -        |
| NPM Goemetric- Only one local land savouy responded to the request correct quote  | 5,130          | -        |
| Ntaba River lodge- Other places were fully booked   | 8,000          | -        |
| Selele Travel- Other places were fully booked   | 5,390          | -        |
| Ntaba River- Other places were fully booked.  | 2,832          | -        |
| Ntaba River - Other places were fully booked  | 3,280          | -        |
|   | <b>199,235</b> | <b>-</b> |

### 47. Change in estimate

### 48. Prior period errors

The prior year has been amended to account for prior period errors

Below is a summary of the total effect the prior period errors, changes in accounting policies and reclassifications of the comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amount involved.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

Statement of financial performance for the year ended 2016

| Revenue                                | Balance as previously reported | Prior period error | Reclassified     | Restated balance   |
|--|--------------------------------|--------------------|------------------|--------------------|
| Service charges                        | 726,277                        | -                  | -                | 726,277            |
| Rental income                          | 58,056                         | -                  | -                | 58,056             |
| Interest received - trading            | 2,550,539                      | -                  | -                | 2,550,539          |
| Interest received - investment         | 808,187                        | -                  | -                | 808,187            |
| Other Income                           | 257,003                        | 26,453             | 9,000            | 292,456            |
| Property rates                         | 3,962,250                      | -                  | -                | 3,962,250          |
| Government grants and subsidies        | 113,734,312                    | 29,801,183         | -                | 143,535,495        |
| Public contributions and donations     | -                              | 723,495            | 1,000            | 724,495            |
| Revenue from non exchange transactions | -                              | -                  | -                | -                  |
| Fines, penalties and forfeits          | 285,650                        | -                  | -                | 285,650            |
| Licences and permit                    | 24,267                         | -                  | -                | 24,267             |
| <b>Total revenue</b>                   | <b>122,406,541</b>             | <b>30,551,131</b>  | <b>10,000</b>    | <b>152,967,672</b> |
| <b>Expenditure</b>                     |                                |                    |                  |                    |
| Employee related costs                 | 49,687,869                     | (785,450)          | (4,403,801)      | 44,498,618         |
| Remuneration of councillors            | 10,000,065                     | 178,196            | 111,477          | 10,289,738         |
| Debt impairment                        | 3,060,086                      | 787,941            | -                | 3,848,027          |
| Depreciation and amortisation          | 29,789,383                     | 1,021,983          | -                | 30,811,366         |
| Finance costs                          | 10,476,402                     | -                  | -                | 10,476,402         |
| Repairs and maintenance                | 2,676,943                      | (208,767)          | 65,728           | 2,533,904          |
| Contracted services                    | 1,709,749                      | (467,673)          | 3,183,443        | 4,425,519          |
| Grants and subsidies paid              | 5,033,220                      | -                  | -                | 5,033,220          |
| General expenses                       | 25,878,616                     | 2,724,455          | 8,043,882        | 36,646,953         |
| Operating lease rentals                | 2,116,223                      | (1,465,790)        | (343,848)        | 306,585            |
| Loss on disposal of assets             | -                              | 263,527            | -                | 263,527            |
| <b>Total expenditure</b>               | <b>140,428,556</b>             | <b>2,048,422</b>   | <b>6,656,881</b> | <b>149,133,859</b> |
| <br>Operating surplus / (deficit)      | <br>(18,022,015)               | <br>28,502,709     | <br>(6,646,881)  | <br>3,833,813      |
| Surplus / (deficit) for the year       | (18,022,015)                   | 28,502,709         | (6,646,881)      | 3,833,813          |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

Statement of Financial Position as at 30 June 2016

|  | Balance as previously reported | Prior period error | Reclassified | Restated balance |
|--|--------------------------------|--------------------|--------------|------------------|
| <b>Assets</b>  |                                |                    |              |                  |
| <b>Current Assets</b>  |                                |                    |              |                  |
| Cash and cash equivalents  | 9,015,613                      | (7,494)            | -            | 9,008,119        |
| Receivables from exchange transactions                                       | 1,544,820                      | (881,674)          | -            | 663,146          |
| Receivables from non-exchange transactions                                   | 1,716,068                      | 45,835             | -            | 1,761,903        |
| VAT receivable   | 28,116,815                     | 10,292,246         | (6,646,881)  | 31,762,180       |
| Other debtors  | -                              | 531,385            | -            | 531,385          |
| Inventories  | 520,855                        | -                  | -            | 520,855          |
| Total current assets   | 40,914,171                     | 9,980,298          | (6,646,881)  | 44,247,588       |
| <b>Non-current Assets</b>  |                                |                    |              |                  |
| Investment property  | 11,461,003                     | -                  | -            | 11,461,003       |
| Property, plant and equipment  | 342,602,266                    | 9,712,057          | -            | 352,314,323      |
| Total non-current assets   | 354,063,269                    | 9,712,057          | -            | 363,775,326      |
| <b>Liabilities</b>   |                                |                    |              |                  |
| <b>Current Liabilities</b>   |                                |                    |              |                  |
| Payables from exchange transactions  | 20,976,089                     | 7,335,004          | (54,999)     | 28,256,094       |
| Finance lease obligation   | 11,526,747                     | -                  | -            | 11,526,747       |
| Unspent conditional grants and receipts                                      | 29,807,182                     | (29,801,181)       | (6,001)      | -                |
| Employee benefit obligation  | 509,000                        | -                  | -            | 509,000          |
| Consumer deposit   | -                              | -                  | 61,000       | 61,000           |
| Bank Overdraft   | 45,125                         | -                  | -            | 45,125           |
| Total current liabilities  | 62,864,143                     | (22,466,177)       | -            | 40,397,966       |
| <b>Non-current Liabilities</b>   |                                |                    |              |                  |
| Provisions   | 4,801,824                      | -                  | -            | 4,801,824        |
| Employee benefit obligation  | 1,472,000                      | -                  | -            | 1,472,000        |
| Finance lease obligation   | 100,244                        | -                  | -            | 100,244          |
| Operating lease liability  | 1,597,514                      | -                  | -            | 1,597,514        |
| Total non-current liabilities  | 7,971,582                      | -                  | -            | 7,971,582        |
| <b>Net Assets</b>  |                                |                    |              |                  |
| Accumulated surplus - Opening balance  | 342,163,730                    | 10,561,608         | -            | 352,725,338      |
| Reserves   | -                              | 3,094,217          | -            | 3,094,217        |
| Total net assets   | 342,163,730                    | 13,655,825         | -            | 355,819,555      |
| <b>Accumulated surplus</b>   |                                |                    |              |                  |
| Other Income - Donations on assets and commissions recognised                |                                |                    | -            | (26,453)         |
| Government Grants and subsidies- MIG, FMG, MSIG, EPWP, MISP grant recognised |                                |                    | -            | (29,801,183)     |



## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

### Notes to the Annual Financial Statements

Figures in Rand

#### 48. Prior period errors (continued)

|  |   |                     |
|--|---|---------------------|
| Employee related costs- clearing misallocations in payroll costs       | - | (785,450)           |
| Public Contributions and donations- Donations on assets not recognised | - | (723,495)           |
| Remuneration of councillors- clearing misallocations in payroll costs  | - | 178,196             |
| Debt Impairment- Recalculated debt impairment                          | - | 787,941             |
| Depreciation recalculated  | - | 1,021,983           |
| Repairs and maintenance- reclassification of assets                    | - | (208,767)           |
| Contracted services  | - | (467,673)           |
| General expenses- Recognising expenses not accrued for                 | - | 2,724,455           |
| Operating lease rentals  | - | (1,465,790)         |
| Profit or loss on sale of assets                                       | - | 263,527             |
| SARS assessments during the year not recovered                         | - | 6,646,881           |
|  | - | <u>(21,855,828)</u> |

#### Other income

Assets life guard equipment amounting to **R723 495** were donated to the municipality in the 2014/15 financial period. These assets were omitted from the books resulting in an overall understatement of assets and donations by the said amount.

The municipality acts as a collection agent for legal wise, Sanlam Sky as well as Old Mutual. In return it gets commission. This commission was incorrectly classified under employee costs. This error of classification understated employee costs, remuneration of councillors as well as commission by an overall amount of **R33 757**

A claim paid to a deceased employee beneficiary amounting to **R 7 340** was erroneously included under claims received resulting in overstatement of claims received and employee related costs.

Subsistence allowance amounting to **R10 000** was incorrectly classified under other income. This understated general expenses and other income by **R10 000**

#### Government grants and subsidies

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the grant income amount and overstatement of unspent grant amount by **R29 801 183**

#### Employee related cost

General expenses amounting to **R4 403 801** were incorrectly classified under employee related costs. This resulted in the overstatement of the employee costs with **R4 403 801** and understatement of the general expenses with the same amount.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

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### 48. Prior period errors (continued)

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee cost instead of correctly under remuneration of councillors.. This resulted in in overstatement of employee cost and understatement of remuneration of councillors.

Bonus provision was understated by **R7 917** whilst leave provision was overstated by **R32 529**. These misstatements were as a result of incorrectly calculating respective provisions.

Medical aid expenses, Pension contributions, UIF were inaccurately provided for resulting in an overall overstatement of **R300 717** under employee related costs.

Salaries were overstated by **R460 121** due to misallocation between remuneration of councillors and employee costs, commission received misallocations and misallocations in claims received.

#### Remuneration of councillors

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee costs instead of correctly under remuneration of councillors. This resulted in overstatement of the employee cost and understatement of remuneration of councillors.

Salaries were overstated by **R178 196** due to misallocations between remuneration of councillors and employee costs, telephone cost misallocations, commission received misallocations.

#### Debt Impairment

Debt impairment was incorrectly calculated resulting in understatement of debt impairment expense by **R787 941** i.e rates overstated by **R93 733** whilst refuse understated by **R881 674**

#### Depreciation

Depreciation expense was incorrectly calculated resulting in an understatement of of depreciation expense and the related accumulated depreciation. The error amounted to **R1 021 983**.

- -

#### Repairs and maintenance

Some expenditure line items were classified incorrectly under operating lease rentals. These amounts included office and traffic equipment . This was reclassified to other repairs and maintenance **R65 728**.

Assets amounting to **R53 066** were incorrectly allocated under repairs and maintenance account resulting in overstatement of of the latter account and understatement of assets.

Repairs amounting to **R350 008** were incompletely recorded resulting in understatement of the repairs expenses and accruals.

Expenses amounting to **R480 590** were erroneously recorded under repairs and maintenance resulting in an overstatement of the latter account as well as accruals.

Repairs amounting to **R21 348** were recording twice resulting in overstatement of the repairs expenses and accruals.

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

#### Contracted services

Some contracted services line items were incorrectly classified as general expenses. These amounts related to consultants and professional fees and legal fees. These items were reclassified to contracted services **R3 183 443**. Contracted services amounting to **R56 948** were incompletely recorded resulting in understatement of the latter expenses and accruals.

Expenses amounting to **R245 899** were erroneously recorded under contracted services resulting in an overstatement of the latter account as well as accruals.

Expenses amounting to **R770 520** were recorded twice under contracted services resulting in an overstatement of the latter account as well as accruals.

#### General Expenses

Some expenditure line items were classified incorrectly under general expenditure. These amounts include legal fees, consultants and professional fees. This was reclassified as to contracted services. **(R3 183 443)**

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in an overstatement of the VAT receivable and an understatement of general expenses with the same amount.

General expenses amounting to **R4 292 324** were incorrectly classified under employee related cost. This resulted in an overstatement of the employee cost with **R4 292 324** and understatement of general expenses with the same amount.

General expenses amounting to **R278 119** were incorrectly classified under operating lease rentals. These resulted in an overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses by the same amount.

General expenses amounting to **R10 000** were incorrectly classified under other income. This resulted in an understatement of other income with **R10 000** and understatement of general expenses with the same amount.

Up and above the misclassifications above the following additional mistatements are summarised below.

| Description  | Mistatement      |
|--|------------------|
| Duplicated expenses                                  | 498 728          |
| Expenses incorrectly accounted for                   | -1 278 943       |
| Expenses omitted                                     | 4 518 986        |
| Payroll expenses misallocated under general expenses | - 38 909         |
| VAT Incorrectly accounted for                        | 22 050           |
| <b>Total</b>   | <b>2 724 455</b> |

#### Operating lease rentals

General expenses amounting to **R343 848** were incorrectly classified under operating lease rentals. This resulted in an overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses with the same amount.

An expense was duplicated when recording resulting in an overstatement of operating lease rentals and accruals by an amount of **R 1 285 781**.

Expenses amounting to **R180 009** were recorded twice under operating lease rentals resulting in an overstatement of the latter account as well as accruals.

#### Profit or loss on sale of asset

No profit or loss was calculated on the assets that were disposed in the 2014/15 financial year. This resulted in overall mistatements in loss on disposal, assets and accumulated surplus of **R263 527**.

## Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

### Notes to the Annual Financial Statements

Figures in Rand

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#### 48. Prior period errors (continued)

Statement of Financial Position

##### Cash and cash equivalents

Petty cash expenses incurred in the 2014/15 financial year were omitted erroneously in the 2015 financial year and consequently the petty cash balance and related expenses were understated by **R7 494**.

##### Receivables from exchange transactions

Refuse debtors debt impairment amounts reported as at the 30th of June 2015 were incorrectly calculated. This resulted in the understatement of the debt expense by **R881 674** and overstatement of refuse receivables by the same amount.

##### Receivables from non exchange transactions

Rates debtors debt impairment amounts reported as at 30th of June 2015 were incorrectly calculated. This resulted in the overstatement of debt impairment expense by **R93 733** and overstatement of rates of receivables by the same amount.

Rates debtors balance were erroneously debited with VAT related transaction. This overstated the debtors balance with **R47 897**

##### VAT Receivable

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in overstatement of the VAT receivable and understatement of general expenses with the same amount.

For all expenses incurred but initially not accrued for, VAT input was also accounted for in recognition of the expenses and respective accruals. The VAT input adjustment amounted to **R10 292 246**

##### Other Debtors

Proceeds from assets disposed in the 2014/15 financial year were not yet received as at the end of that financial period. The amount receivable was **R531 385**. Omission of the receivable also resulted in incorrectly accounting for loss on disposal.



# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

#### Payables from exchange transactions

Unallocated deposits amounting to R6 000 were erroneously classified under unspent conditional grants instead of under payables from exchange transaction. This resulted in overstatement of the former balance whilst the latter balance was understated.

#### Accruals

In the 2014/15 financial year there were various misstatements to the accruals as summarised below.

| Description                        | Misstatement        |
|------------------------------------|---------------------|
| Accruals incorrectly accounted for | 1 197 186.41        |
| Accruals not raised completely.    | -540 425.03         |
| Duplicated accruals                | 547 792.63          |
| Invalid accruals                   | -743 413.86         |
| Payroll related expenses           | <u>639 295.27</u>   |
|                                    | <b>1 100 435.42</b> |

#### Creditors control

Batches of invoices totalling R2 879 117 were not accounted for at year end (error of omission). This understated the related expenditure account as well as the creditors control account.

An amount of R587 304 was erroneously included under creditors. This resulted in a misstatement of creditors and related expenditure with the same amount.

#### Provision for bonus and leave

Bonus provision was understated by R7 917 whilst leave provision was overstated by R4 304. These misstatements were as a result of incorrectly calculating the respective provisions.

#### Retention

Retention cost for a number of projects were completely omitted from the system. The retention amount totalled R4 897 056. This omission resulted in understatement of the retention payable as well as the project cost.

#### Salary Suspense Account

As at year end there were payroll related transactions that had been underpaid to third parties or in some instances employees. These amounts were not accounted for correctly as they were incorrectly accounted for under payroll related cost. The overall misstatement is R59 731.

#### Unspent Conditional grants and receipts.

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the Grant income amount and overstatement of unspent grant by R29 801 183.

### Property, plant and Equipment

In the 2014 -2015 financial year there were various misstatements to the property, plant and equipment as summarised below:

| Description                                    |                  |
|--|------------------|
| Correcting depreciation incorrectly calculated | - (716,033)      |
| Damaged laptop                                 | - (5,020)        |
| Internal projects not capitalised              | - 6,599,308      |
| WIP register                                   | - (1,350,737)    |
| Retentions incorrectly accounted for           | - 1,257,108      |
| Assets incorrectly recorded under repairs      | - 50,615         |
| Gate not accrued for                           | - 18,150         |
| Plant and equipment incorrectly accounted for  | - 818,856        |
| VAT erroneously included in Assets             | - 2,160,112      |
| Donated Assets                                 | - 879,699        |
|  | <b>9,712,058</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 48. Prior period errors (continued)

#### Unspent conditional grants and receipt

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the Grant income amount and overstatement of unspent grant amount by **R29 801 183**

### 49. Financial instruments disclosure

#### Categories of financial instruments

#### 2016

##### Financial assets

|                           | At amortised<br>cost | Total             |
|---------------------------|----------------------|-------------------|
| Cash and cash equivalents | 2,534,392            | 2,534,392         |
| Call deposits             | 34,323,474           | 34,323,474        |
| Receivables               | 4,997,946            | 4,997,946         |
|                           | <b>41,855,812</b>    | <b>41,855,812</b> |

##### Financial liabilities

|                         | At amortised<br>cost | Total             |
|-------------------------|----------------------|-------------------|
| Finance lease liability | 10,520,779           | 10,520,779        |
| Trade Payables          | 6,795,112            | 6,795,112         |
| Loan                    | 8,741,167            | 8,741,167         |
|                         | <b>26,057,058</b>    | <b>26,057,058</b> |

#### 2015

##### Financial assets

|                           | At amortised<br>cost | Total             |
|---------------------------|----------------------|-------------------|
| Cash and cash equivalents | 7,661                | 7,661             |
| Short term deposits       | 9,007,952            | 9,007,952         |
| Receivables               | 2,956,434            | 2,956,434         |
|                           | <b>11,972,047</b>    | <b>11,972,047</b> |

##### Financial liabilities

|                         | At amortised<br>cost | Total             |
|-------------------------|----------------------|-------------------|
| Bank overdraft          | 45,125               | 45,125            |
| Trade payables          | 13,026,039           | 13,026,039        |
| Loan                    | 8,741,167            | 8,741,167         |
| Finance lease liability | 11,626,991           | 11,626,991        |
|                         | <b>33,439,322</b>    | <b>33,439,322</b> |

# Port St Johns Municipality

Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Annual Financial Statements

Figures in Rand

### 50. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year..

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June, 2015 is disclosed in note 48 - Prior period errors.

### 51. Budget differences

#### Material differences between budget and actual amounts

- a) Accept as immaterial
- b) Asset as immaterial
- c) Investment property is currently undergoing renovations
- d) Funds were withheld for MIG
- e) Vacant positions not filled

### 52. In-kind donations and assistance

#### Donations

Guard equipment donated  
Fax Machine

|              |                |
|--------------|----------------|
| -            | 723,495        |
| 2,500        | -              |
| <u>2,500</u> | <u>723,495</u> |